

Presented to Parliament pursuant to Chapter 2, Section 45 of the Administration of Justice Act 1982

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# Funds in Court in England and Wales Account 2008-2009

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# Funds in Court in England and Wales Account 2008-2009

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# Foreword to the Accountant General's Accounts (Part-A) of his transactions under Section 38 of the Administration of Justice Act 1982 and presented under Section 45 of the same Act

## Accountant General's Accounts

The Accountant General's Accounts (Part A) cover the year ended 28 February 2009. They have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. Other accounts prepared by the Commissioners for the Reduction of National Debt (CRND) – Part B – Court Funds Investment Account (CFIA) and the Investment Manager's Accounts – Part C – The Equity Index Tracker Fund (EITF), supplement the Funds in Court Part A – Accountant General's Accounts. In order to provide a full understanding of the relationship between the Parts A, B and C, the Part A Accounts consolidate the relevant elements.

## The Court Funds Office

The Court Funds Office (CFO) conducts dealings in cash and securities on behalf of the Accountant General. It manages funds 'held in court' on behalf of clients who may be

- Suitors involved in a civil legal action where money is paid into the CFO. These are cases either in a county court in England or Wales or in the High Court of Justice. The CFO will hold such monies until authorised to release them on completion of the case. The CFO holds these monies in its Basic Account, and paid interest at a rate of 4 per cent gross with instant access from 1 March 2008 to 31 January 2009, and two per cent gross with instant access from 1 February 2009 until 28 February 2009.
- Patients, under the Court of Protection, who are not able to manage their property and affairs and as a result use the services of the Office of the Public Guardian (OPG). The investment strategy for patients' funds is determined by the respective court either on a capital appreciation or high income basis or a mixture of both and reviewed annually. The investment strategy, determined by the court, is implemented by a Deputy appointed to act on behalf of the Patient, either in stocks and certain unit and investment trusts, or placed with the CFO on its Special Account. The CFO paid interest at a rate of six per cent gross with instant access from 1 March 2008 to 31 January 2009, and three per cent gross with instant access from 1 February 2009 until 28 February 2009.
- Children for whose benefit funds are paid into Court. These funds are held until the clients attain majority on their 18th birthday, unless the court order instructs otherwise. The investment strategy for children's funds is determined by the respective court either on a capital appreciation or high income basis or a mixture of both. The investment strategy is implemented by the Investment Division on behalf of the Public Trustee, either in Equity Index Tracker Fund (EITF), or placed with the CFO on its Special Account. The CFO paid interest at a rate of six per cent gross with instant access from 1 March 2008 to 31 January 2009, and three per cent gross with instant access from 1 February 2009 until 28 February 2009.

The CFO is also responsible for the Unclaimed Balances Account. This Account consists of

- Money paid into court which has not been claimed by beneficiaries after 10 years from the last point of activity on the account; and
- Money paid to the CFO where the rightful owner cannot be found, and which therefore cannot be returned.

The Unclaimed Balances register is available at the CFO at 22 Kingsway, London WC2B 6LE and is open to the public.

The CFO is controlled by the Rules of the Supreme Court and the Court Funds Rules which provide the authority to accept payments 'into court' under certain circumstances and to hold these funds until instructed to make a payment out.

## Strategic Investment Board (SIB)

The Strategic Investment Board (SIB) was disbanded on 30 June 2008, and two former members, Mr Alan Clifton and Dr Ros Altmann, were appointed as non-executive members of the Court Funds Office Management Board on 8 August 2008. Mr Clifton and Ms Altman advise the Court Funds Office in respect of its client investment activities.

The SIB acted as a non-executive, non-departmental public body that advised the Ministry of Justice in respect of its client investment activities. The membership of the SIB until it was disbanded was as follows

- Chairman – Alan Clifton;
- Appointed Members – Dr Ros Altmann, Andrew Hutton, and Laurence O'Mara; and
- Ex Officio Members – Nick Crew, Senior Master Denzil Lush, Alastair Pitblado, Kevin Sadler.

## Court Funds Office Investment Criteria

Under section 38(2) of the Act, the Accountant General maintains a bank account. During the year the banking arrangements have been maintained with National Westminster Bank a subsidiary of Royal Bank of Scotland plc. From time to time money on that account in excess of an average working balance at an agreed level is remitted to the CRND for investment, drawings being made when additional money is required to meet payments 'out of court'. The Accountant General meets the cost of servicing these accounts.

The Accountant General operates the Basic and Special Accounts and the monies held in court may be paid into either account in accordance with the Court Funds Rules. The rates of interest paid on these accounts are prescribed from time to time by direction made by the Lord Chancellor, with the concurrence of the Treasury.

During the year 1 March 2008 to 28 February 2009, the gross percentage rates were as follows;

1 March 2008 until 31st January 2009: Basic Account four per cent and Special Account six per cent.

1 February 2009 until 28th February 2009: Basic Account two per cent and Special Account three per cent.

Interest earned by the Accountant General's deposits with the CRND pays the interest due on Basic and Special Accounts, with any residual surpluses or deficits being due to or from the Consolidated Fund (CF).

## Results for the year ended 28 February 2009

The Accounts and Notes on pages 13 to 24, record a deficit for the year ending 28 February 2009 of £34.0 million (2008 surplus of £14.3 million). The main factors resulting in this movement are as follows

- Increase in Interest due to clients of 3.75 per cent to £269 million (2008 £259 million) with the main driver being the revaluation of Foreign Currency Bank Accounts reflecting the relative weakness of sterling. The interest paid on Special Accounts was broadly unchanged in the year reflecting both stable levels of balances and interest paid, whilst interest paid on Basic Accounts continued to decline reflecting the reducing balances held. The impact of reductions in interest rates on Special and Basic Accounts from 1 February 2009 had limited impact during the year but will better position the fund in the context of the lower interest rate environment now operating in the UK.
- Interest received reduced to £222 million (2008 £293 million), prior to payment of surplus income of £4.7 million (2008 £4.2 million) to the CF, see note 3. This deterioration reflects the decline in UK interest rates during the year, given that the majority of the CFIA investments are Loans and Advances with relatively short maturity periods the impact of declining interest rates is quickly reflected in the returns available on the CFIA.
- The net impact of the above factors was deterioration in Net Interest Income of £81.5 million to a deficit of £52.4 million (2008 £29.1 million surplus).

- Movements in Dividends, and Gains/losses on Securities are all matched by changes in the Income due to clients on Security holdings as the risks and rewards are fully borne by the Clients. There was a significant deterioration in the market value of Clients' Security Holdings during the year reflecting the impact of the Global Credit Crunch on Equity Market values, resulting in mark to market losses of £67.1 million (2008 £19.4 million gains).
- Management expenses have declined by £8.1 million in the year to £5.9 million (2008 £14.3 million) which largely reflects the £9 million release of Provisions relating to corrections to Children's Accounts reported in the previous accounts, which are now substantively complete.

The Balance Sheet reports a decrease in assets during the year of £177 million (3.3 per cent) to £5.26 billion. The major change in the assets reflects the investment in Gilts towards the end of the financial year, with a corresponding reduction in Loans & Advances. There has also been a significant increase in Foreign Currency Bank Accounts of £66.9 million to £86.7 million (2008 £19.8 million). The reduction in Other Assets largely reflects a decline in Accrued Interest reflecting the generally lower levels of interest rates.

The main liabilities are the Clients' cash balances, which, during the year have decreased by £34 million to £4.6 billion due to lodgements of £1 billion (2008 – £1.2 billion), with cash payments and transactions out of court of £1.3 billion (2008 – £1.6 billion). This net outflow of cash together with interest credited of £280 million (2008 – £261 million) explains the small decrease in cash balances and a full analysis of cash movements is shown in Note 13.

The Accounts (see Note 9) also report a £76 million decrease in the market value of securities held, with a closing balance of £170 million at 28 February 2009 (2008 – £245 million). This reduction is driven by a 7.8 per cent reduction in the overall volume of holdings to 57 million at year-end. The units in the Equity Index Tracker Fund (Common Investment Fund) continued to increase during the year by 450,000 units to 10.5 million units with a market value of £74 million (2008 – 10.1 million units with a market value of £105.9 million). Further details of the Equity Index Tracker Fund are provided in the Part C Accounts.

These Accounts reflect the administrative costs recovered from the CFIA in accordance with the Administration of Justice Act 1982, totalling £5.9 million. The detailed breakdown of administrative costs for the CFO fall outside the scope of these accounts, and are reported in the 2008-2009 Annual Report and Accounts of the Ministry of Justice.

## Audit of Accounts

Under Section 45 (3) of the Act, the Comptroller and Auditor General is responsible for examining the Accountant General's Accounts and laying before Parliament a copy of the accounts together with his certificate and report.

So far as I am aware, there is no relevant audit information of which the CFO's external auditors are unaware and I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that the CFO's external auditors are aware of that information.

The notional audit fee for the audit of the Funds in Court Part A financial statement for the year ended 28 February 2009 is £65,000. There have been no fees paid in respect of non-audit work.

## Other Developments

The Offices of Court Funds, Official Solicitor and Public Trustee (OCFOSPT) were formed in April 2007 as an Associated Office within the Ministry of Justice. This did not affect the statutory basis for the three discrete offices nor the statutory appointments associated with them. However the subsequent review of the options that will modernise the Court Funds Office has led to a decision being taken that saw the three offices de-merge on 31 March 2009.

In 2007-2008 CFO began a significant project to review live Children's Accounts that had not been invested in accordance with Judicial decisions, and to correct account balances affected. The CFO worked with HMCS and Internal Audit Division (IAD) to review how effective the court's own controls were in monitoring how quickly those decisions are communicated to the CFO and, internally, the CFO has completed a review that has identified additional control processes that are now undertaken, and agreed with HMCS how corrective payments will be apportioned in future. The CFO brought the correction of the vast majority of accounts to a satisfactory conclusion in 2008-2009.

The Investment and Banking Programme, who are assessing the modernisation options for the Court Funds Office (CFO), published four options that would be considered. Of these, Option 4, which will see the administrative functions of the CFO transferred to another Government Department sometime in 2011, was agreed as the 'preferred option' and work will continue on that option throughout 2009-2010. The residual CFO will retain responsibility for managing Finance, Policy and Contract Management.

The CFO completed its own Business Review that saw changes to the way the office is structured, enhanced working practices and enhanced the wider risk management framework. Additional work began to develop these changes further through applying LEAN principles. This work will continue in 2009-2010.

The CFO changed its interest rates in February 2009 (see Court Funds Office Investment Criteria for details) and undertook a major project to notify its clients of that change and deal with the client contact that a change would generate.

*Karen Wheeler*  
Accountant General of the Supreme Court

14 July 2009



## Statement of the Accountant General's responsibilities

### Management and Investment of Funds in Court

As set out in section 38 of the Administration of Justice Act 1982 (the Act), the Accountant General of the Supreme Court is responsible for the management and investment of the Funds in Court.

### Statement of Accounts

Under section 45 (1) of the Act, the Accountant General is required to prepare a statement of accounts for each financial year in the form and on the basis as directed by the Treasury. A Treasury Direction was issued on 7 August 2006 (see page 24) and these accounts are prepared so as to give a true and fair view of the state of affairs as at 28 February 2009 and of the income and expenditure and cash flows of the year just ended.

### Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Karen Wheeler as Accountant General of the Supreme Court on 1 October 2008. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. Her relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

# Statement on Internal Control

## Scope of responsibility

As Accounting Officer for the Funds in Court Part A Accounts, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated by the CFO.

## The purpose of the system of internal control

The CFO system of internal control is designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, but not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded, proper accounting records are maintained and that material errors or irregularities are either prevented or would be detected within a timely period.

## Capacity to handle risk

The risk management process requires the CFO to maintain a risk register, which is a complete record of the risks it faces and management's response to these risks, including the adequacy of the controls in place to manage risks and any actions planned to strengthen these controls.

The CFO have developed a framework of key risk and operational controls. This control framework has been embedded in the risk management processes operated during the current financial year.

In the CFO, the main processes in place for identifying, evaluating and managing risks are

- monthly Management Board meetings to discuss exception planning and risks to the business, enhanced with reviews of the CFO Risk Register; a living document which is informed by risks and issues identified at a section level;
- a framework of key risks and operational controls that is reflected as a responsibility for all team section managers;
- a project risk register for each project which is discussed at weekly Project Board meetings; and
- a Risk Control Team, which undertakes a programme of independent tests to ensure that procedures are being effectively implemented.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures, including segregation of duties, and a system of delegation and accountability.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of Internal Audit and the management team, who have responsibility for the development and maintenance of the internal control framework, and comments made by the National Audit Office in their management letter and other reports.

My review of the effectiveness of the system of internal control is informed by the following

- continuation of more rigorous data input validation to ensure quality control at input stage thus reducing the scope for errors;
- continuation of daily, weekly and monthly exception reporting in the Account Management, Processing, Finance, Securities and Quality Assurance Divisions to ensure that any deviations from planned activity are addressed promptly;

- improvement of communication with all stakeholders, e.g. the OPG, the OSPT and HMCS to ensure a seamless flow of information;
- individual accountability written into personal development plans of business section managers to reflect the need for specific compliance functions to be carried out weekly and certificated monthly;
- the CFO senior management carry out ongoing review of the process for formally identifying, evaluating and managing the significant risks to the achievement of its objectives;
- the undertaking of daily and monthly reconciliation to ascertain and agree the balances held with National Westminster Bank, a subsidiary of Royal Bank of Scotland plc, and the CRND, who hold funds on behalf of the Accountant General;
- the existence of an appropriate control environment, such as clearly defined management responsibilities and evidence of prompt reaction to control failures such as action plans to address internal assurance recommendations;
- for client funds invested via the Equity Index Tracker Fund, review of performance undertaken via quarterly reports submitted to the CFO Management Board, together with overall operational control frameworks around dealings in units and the management of the unit register;
- a Risk Control function within CFO whose role is to help enhance risk management across CFO operations as well as review adherence to the risk framework and operational controls; and
- a Customer Service Team, as part of the Quality Assurance Division, dedicated to the provision of a streamlined response to clients. Also provided is an outreach function that provides information on CFO services as well as advising the courts on services offered through familiarisation visits.

The MOJ has an Internal Assurance Division (IAD), which operates to the standards defined in Government Internal Audit Standards and provides an internal audit service for CFO. The work of IAD is informed by an analysis of the risks to which the Department are exposed and annual internal audit plans are based on this analysis. MOJ Corporate Audit Committee endorsed the internal audit plans and received an internal audit report when it considered the accounts for the year ending 28 February 2009.

Following compliance control checks within CFO during 2009-2010, suspicious activity has been detected on a single CFO account that may be determined as fraud or suspected fraud affecting the Funds in Court in England and Wales (Part A) Account. Activities are ongoing in conjunction with MoJ Internal Audit and the Metropolitan Police.

## Internal Control

During 2008-2009 IAD carried out a review of Staff Performance Management Systems, the Children's Recovery Project, and IT Systems. Follow up reviews were undertaken in Court of Protection and Unclaimed Balances. Various action points have been agreed with IAD that the CFO have either addressed or continue to evaluate, and dialogue between both IAD and CFO will continue in 2009-2010.

A dedicated Risk Control Team operates within the CFO to monitor progress on implementation of the controls identified in the Risk Management Framework. This team provides an independent assurance to management on control issues and is an integral feature of the governance and risk management arrangements.

## Children's Fund Accounts

The CFO manages cases relating to Children's Funds, which may be invested either in

- capital growth, where no funds are anticipated to be required during the lifetime of the fund;
- capital appreciation with some income where some payments may be required during the lifetime of the fund; or
- high income where payments may be required from time-to-time.

Early in 2007, the CFO Management Board identified a lack of compliance with prescribed controls (in HMCS and CFO) over Children's Funds, which resulted in the need to provide corrective payments for under-investment of Children's Accounts. Initially, the level of exposure was estimated to be £16.67 million, but due to fluctuations in market conditions the successful closure of the project has seen expenditure total approximately £7 million.

## Fund's Accounting System

The Court Funds Office has identified and is seeking to address operational risks arising from the continued operation of the Funds Accounting System (FAS). The Investment and Banking Programme are assessing four modernisation options for the Court Funds Office (CFO). One option that transfers the administrative functions of the CFO to another Government Department with a more modern fund accounting system during 2011, has been agreed as the 'preferred option'. Work will continue on this option during 2009-2010. The residual CFO will retain responsibility for managing Finance, Policy and Contract Management.

## Annual Reconciliation of Security Holdings

The annual reconciliation of the Accountant General security holdings at the financial year ending 28 February 2009 was carried out by comparing the Client holdings on the CFO's Funds Accounting System (FAS) records against records held in the name of the Accountant General with authorised Custodians.

*Karen Wheeler*  
Accountant General of the Supreme Court

14 July 2009

# Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Funds in Court in England and Wales (Part A) for the year ended 28 February 2009 under section 45(3) of the Administration of Justice Act 1982. These comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accountant General and Auditor

The Accountant General as Accounting Officer is responsible for preparing the accounts of the Funds in Court in England and Wales (Part A) transactions under Section 45 of the Administration of Justice Act 1982 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Accountant General's Responsibilities. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with Section 45 of the Administration of Justice Act 1982 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the sections, entitled *Accountant General's Accounts, The Court Funds Office and Results for the year ended 28 February 2009*, in the Foreword, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities, which govern them.

In addition, I report to you if, the Court Funds Office has not kept proper accounting records in respect of the Funds in Court in England and Wales (Part A) Accounts, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects the Court Funds Office's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Court Funds Office's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. This information comprises the sections entitled *Strategic Investment Board, Court Funds Office Investment Criteria, Audit of Accounts and Other Developments* I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accountant General in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Funds in Court in England and Wales (Part A) Account's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with Section 45 of the Administration of Justice Act 1982 and directions made thereunder by HM Treasury, of the state of the Funds in Court in England and Wales (Part A) Account's affairs as at 28 February 2009 and of its transactions for the year then ended;
- the financial statements have been properly prepared in accordance with Section 45(2) of the Administration of Justice Act 1982 and HM Treasury directions made thereunder; and
- information given within the Foreword, which comprises the sections entitled, the Accountant General's Accounts, the Court Funds Office and the Results for the year ended 28 February 2009, is consistent with the financial statements.

### **Opinion on regularity**

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities, which govern them.

### **Report**

I have no observations to make on these financial statements.

*Amyas CE Morse*  
Comptroller and Auditor General

16 July 2009

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## Income Statement for the year ended 28 February 2009

	Notes	Year ended 28/29 February	
		2009	2008
		£000	£000
<b>Income</b>			
Interest income	3	<b>216,833</b>	288,559
Interest expense	4	<b>(269,186)</b>	(259,444)
<b>Net interest income</b>		<b>(52,353)</b>	29,115
Dividend income		<b>6,045</b>	7,300
(Losses)/gains arising from securities	5	<b>(67,064)</b>	19,419
Gains/(losses) arising from foreign exchange	6	<b>24,708</b>	(334)
Securities income due to clients holdings		<b>60,556</b>	(27,213)
<b>Net income</b>		<b>(28,108)</b>	28,287
<b>Expenses</b>			
Administrative expenses – CFO		<b>14,772</b>	9,730
Provisions – CFO		<b>(9,000)</b>	4,170
Management charges from CRND		<b>109</b>	114
<b>Total expenses</b>		<b>5,881</b>	14,014
<b>Surplus/(deficit) transferred (from)/to reserves and hereditary revenues</b>		<b>(33,989)</b>	14,273

*The notes on pages 15 to 23 form part of these accounts.*

## Balance Sheet as at 28 February 2009

	Notes	<b>28/29 February</b>	
		<b>2009</b>	2008
		<b>£000</b>	£000
<b>Assets</b>			
Cash and cash equivalents	7	<b>86,692</b>	19,796
Loans and advances	10	<b>3,941,154</b>	5,166,148
Debt securities	8	<b>1,088,534</b>	22,313
Investment securities	9	<b>144,729</b>	220,996
Other assets	11	<b>2,402</b>	11,638
<b>Total assets</b>		<b><u>5,263,511</u></b>	<u>5,440,891</u>
<b>Liabilities</b>			
Cash borrowings	7	<b>17,524</b>	19,810
Clients' cash account balances	12	<b>4,657,044</b>	4,701,312
Clients' holdings in investment securities	9	<b>169,577</b>	245,048
Other liabilities: creditors	14	<b>419,366</b>	474,721
<b>Total liabilities</b>		<b><u>5,263,511</u></b>	<u>5,440,891</u>

*The notes on pages 15 to 23 form part of these accounts.*

*Karen Wheeler*  
Accountant General of the Supreme Court

14 July 2008



## Cash Flow Statement for the year ended 28 February 2009

	Notes	Year ended 28/29 February	
		2009 £000	2008 £000
<b>Cash Flows from operating activities</b>			
Cost of purchases of debt securities		(1,045,539)	0
Proceeds from sales of debt securities		0	1,575,000
Loans and advances made		(54,470,744)	(7,515,000)
Loans and advances repaid		55,641,382	6,032,128
Interest received		279,825	290,260
Payment of surplus to Consolidated Fund		(4,240)	(16,200)
Expenses		(18,008)	(114)
Movement on NAIFCD <sup>1</sup> creditor		161	0
Movement on Other (non NAIFCD) creditors		(200)	245
<b>Net cash inflow from operating activities</b>		<b>382,637</b>	<b>366,319</b>
<b>Cash Flows from client cash accounts</b>			
Lodgments from clients	13	1,012,073	1,228,673
Payments to clients	13	(1,325,528)	(1,624,090)
<b>Net cash (outflow) from client cash accounts</b>		<b>(313,455)</b>	<b>(395,417)</b>
<b>Net increase/(reduction) in cash and cash equivalents</b>		<b>69,182</b>	<b>(29,098)</b>
Cash and cash equivalents at 1 March		(14)	29,084
Cash and cash equivalents at 28/29 February	7	<b>69,168</b>	(14)

The notes on pages 15 to 23 form part of these accounts.

1 NAIFCD – Non Apportionable Interest on Foreign Currency Deposits.

# Notes to the Financial Statements

## 1 Accounting policies

These accounts have been prepared in accordance with direction made by Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 2.

### 1.1 Basis of preparation

These accounts have been prepared under the historical cost convention modified by the revaluation of certain financial assets and liabilities, and in accordance with applicable Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that such requirements are relevant to the activities of the Court Funds Office.

### 1.2 Recognition of Income

Interest income and expense for all interest-bearing financial instruments are recognised in interest income and interest expense in the Income Statement using the effective interest rate (EIR) method of allocating interest over the relevant period. Interest income and expense is recognised from settlement date.

Income is recognised in the accounts on the following bases

- interest on investments is recognised as it accrues on an EIR basis rather than on a cash received basis;
- realised gains and losses on disposals or maturities of investments are taken to the Income and Expenditure account in the period they arise; and
- valuation gains and losses on securities and collective investment schemes are recognised in the Income & Expenditure account in the same way as realised gains and losses and are included in the carrying value of those securities on the balance sheet.

### 1.3 Valuation of Securities & Collective Investment Schemes

All securities and collective investment schemes are designated as Financial Assets held at fair value through profit and loss, and are shown in the balance sheet at market value. This reflects the nature of the client holdings, which can be ordered to be repaid at any time and it would therefore be inappropriate to designate investment holdings as 'Held to Maturity'.

The Debt Securities held by the CRND within the Court Funds Investment Account (CFIA) are covered by the Part B Accounts.

There are certain movements in Securities held directly by the CFO for Clients during the year, where no cash changes hands (lodgements and transfers), covering Securities previously held by Clients which are transferred into Court (lodgements) or Securities held by CFO are transferred to Clients rather than being realised and cash paid out (transfers). For these movements, cash values are estimated by using closing market prices applicable on the date the transaction is reflected in the CFO records.

In relation to the Equity Index Tracker Fund (EITF), which are covered in the Part C Accounts, the Net Asset Value is used for valuation purposes in order to ensure consistency between these Accounts and the information presented in the Part C Accounts.

### 1.4 Administrative expenses

The costs incurred by the CFO, and the Management Fees levied by the CRND are included in the Income & Expenditure Account. Management fees levied by EITF are reflected in the unit prices used to value these holdings.

### 1.5 *Foreign currency transactions*

Assets and liabilities included in the balance sheet that have a functional currency different from the presentation currency are translated into the presentation currency at the closing rate at 28 February 2009.

The only foreign currency positions that are maintained are on behalf of clients who wish to hold funds in court in an alternative currency to Sterling. These funds are held in accounts with correspondent banks and earn interest in the relevant currency. Gains or losses on foreign exchange movements are calculated based upon monthly movements in the exchange rates.

Foreign exchange gains and losses resulting from re-valuations are taken to Income & Expenditure, but as the risk is borne by the Clients a balancing transaction is reflected to adjust clients' holdings in the functional currency.

### 1.6 *Ways & Means*

End of day cash surpluses in the CFIA are swept daily to the National Loans Fund (NLF) and are repayable on demand while the NLF makes good any daily shortfall of monies in the CFIA. These investments are known as Ways & Means. The CFIA receives interest on monies swept up to NLF and pays interest on any shortfalls.

## **2 Financial risk management**

The CFO does not assume any financial risks in relation to its principal activity of holding Funds in Court.

### 2.1 *Interest Rate Risk*

Interest Rate Risk is the risk that interest rate movements on assets and liabilities are not aligned resulting in a financial loss.

The Basic and Special Accounts are both operated at administered rates, which are reviewed regularly and can be changed to ensure that interest expense remains closely aligned to interest income generated within the CFIA.

The financial risks of providing the returns on deposit accounts are covered by a Guarantee, on the basis that Section 39 (2) of the Administration of Justice Act 1982, requires any surplus to be paid to the Consolidated Fund, and Section 39 (3) requires any deficits to be met by the Consolidated Fund.

### 2.2 *Credit risk*

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss.

The investments of the CFIA comprise deposits and gilts. The deposits are either with the DMA or the National Loans Fund and are considered to have no exposure to credit risk because both accounts are backed by HM Government. Similarly gilts are considered to be free of credit risk because they have the backing of HM Government.

The financial risks of investing in securities, collective investment schemes, and foreign currency holdings in accordance with client instructions, are borne by the clients.

### 2.3 *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk for the CFIA is considered to comprise interest rate risk. The interest returns on deposits in the CFIA are closely linked to the official Bank Rate. The market value of gilts is sensitive to movements in interest rates. However, gilts tend to be held over the longer term to provide a guaranteed interest return, rather than to generate trading profits.

CRND monitors interest rate movements to help inform the CFIA client of potential issues and events, it does not seek to proactively manage specific market risk without client consent.

The financial risks of investing in securities, collective investment schemes, and foreign currency holdings in accordance with client instructions, are borne by the clients.

#### 2.4 Liquidity Risk

Liquidity risk is the risk that the CFIA will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the CFIA are highly liquid to enable client obligations to be met as they fall due.

### 3 Interest income

	<b>28 February 2009 £000</b>	29 February 2008 £000
Cash and cash equivalents	1,267	908
Loans and advances	219,486	290,222
Debt securities	812	1,669
<b>Total interest receivable</b>	<b>221,565</b>	292,799
<i>Less: surplus income payable to Consolidated Fund</i>	<b>(4,732)</b>	(4,240)
<b>Total interest income</b>	<b>216,833</b>	288,559

Debt Securities includes Coupon Interest in relation to Gilts Holdings held by CFO on behalf of Clients of £464,000 (2008 £494,000).

### 4 Interest due to clients' Accounts

	<b>29 February 2009 £000</b>	28 February 2008 £000
<b>Interest paid</b>		
Court Funds – basic account	34,300	41,130
Court Funds – special account	219,600	218,903
Foreign currency balances	1,242	847
Foreign currency revaluation	24,708	(334)
<b>Total interest paid</b>	<b>279,850</b>	260,546
<b>Interest accrued</b>		
At period end	57,620	68,284
At period start	(68,284)	(69,386)
<b>Total interest due</b>	<b>269,186</b>	259,444

**5 (Losses)/gains on securities**

	<b>28 February 2009 £000</b>	29 February 2008 £000
(Losses)/gains on client security holdings	<b>(67,064)</b>	19,419
<b>Total (losses)/gains on securities</b>	<b>(67,064)</b>	19,419

**6 Gains/(losses) on foreign currency**

	<b>28 February 2009 £000</b>	29 February 2008 £000
US Dollar	<b>23,250</b>	(626)
Swiss Francs	<b>0</b>	51
Euros	<b>1,458</b>	241
<b>Total gains/(losses) on foreign currency</b>	<b>24,708</b>	(334)

**7 Cash and cash equivalents**

Cash and Cash Equivalents include, Balances held in Bank Accounts, in both Sterling and Foreign Currencies.

	<b>28 February 2009 £000</b>	29 February 2008 £000
<b>Assets</b>		
Foreign currency bank accounts	<b>86,692</b>	19,796
<b>Cash and cash equivalent holdings</b>	<b>86,692</b>	19,796

	<b>28 February 2009 £000</b>	29 February 2008 £000
<b>Liabilities</b>		
Sterling bank accounts	<b>(17,524)</b>	(19,810)
<b>Cash and cash equivalent holdings</b>	<b>(17,524)</b>	(19,810)

## 8 Debt securities

Debt Securities comprise UK Government Gilts, managed on behalf of the CFO by the CRND. In addition there are UK Government Gilts held on behalf of clients.

28 February 2009	Nominal £000	Market Value £000
Holdings with CRND	990,000	1,065,780
Holdings held on behalf of clients	9,637	22,754
<b>Total debt security holdings</b>	<b>999,637</b>	<b>1,088,534</b>
<b>Maturity analysis</b>		
Maturing in less than 3 months	0	0
Maturing in more than 3 months but less than 1 year	0	0
Maturing in more than 1 year but less than 5 years	991,616	1,070,311
Maturing in over 5 years	8,021	18,223
<b>Total debt security holdings</b>	<b>999,637</b>	<b>1,088,534</b>

29 February 2008	Nominal £000	Market Value £000
Holdings with CRND	0	0
Holdings held on behalf of clients	9,702	22,313
<b>Total debt security holdings</b>	<b>9,702</b>	<b>22,313</b>
<b>Maturity analysis</b>		
Maturing in less than 3 months	76	76
Maturing in more than 3 months but less than 1 year	35	36
Maturing in more than 1 year but less than 5 years	2,021	4,344
Maturing in over 5 years	7,570	17,857
<b>Total debt security holdings</b>	<b>9,702</b>	<b>22,313</b>

## 9 Investment securities

Investment Securities relate to holdings held by the Accountant General on behalf of clients and comprise

- holdings in the Equity Index Tracker Fund, managed on behalf of the CFO by Legal & General (Unit Trust Managers) Limited, and covered in greater detail in the Part C Accounts, which are valued at Net Asset Value;
- holdings of Unit Trusts lodged in court by clients; and
- Holdings of Individual Stocks and Shares, Debt Securities and National Savings Certificates lodged in court by clients.

The following table(s) show the period end balances and the movements on these holdings during the year

**Market Valuation Summary**

	<b>Holdings</b>	<b>Valuation</b>	Holdings	Valuation
	<b>28 February</b>	<b>28 February</b>	29 February	29 February
	<b>2009</b>	<b>2009</b>	2008	2008
	<b>£000</b>	<b>£000</b>	£000	£000
Unit trust holdings	<b>35,516</b>	<b>105,875</b>	36,231	147,292
Stocks, shares and loan notes	<b>11,810</b>	<b>38,824</b>	15,846	73,688
National savings and other holdings	<b>0</b>	<b>30</b>	0	16
<b>Total investment securities</b>	<b>47,326</b>	<b>144,729</b>	52,077	220,996
Gilt holdings classified as debt securities	<b>9,636</b>	<b>22,754</b>	9,702	22,313
Accrued income	<b>0</b>	<b>2,094</b>	0	1,739
<b>Total client holdings in securities</b>	<b>56,962</b>	<b>169,577</b>	61,779	245,048

**Movements in holdings during the year**

	<b>Total</b>	Total
	<b>Holdings</b>	Holdings
	<b>28 February</b>	29 February
	<b>2009</b>	2008
	<b>£000</b>	£000
Balance at start of year	<b>61,779</b>	74,103
Purchases during year	<b>19,067</b>	17,636
Sold during year	<b>(12,896)</b>	(11,613)
Net transfers (to)/from clients	<b>(10,988)</b>	(18,347)
<b>Balance as at year end</b>	<b>56,962</b>	61,779
<b>Market valuation at year end</b>	<b>167,483</b>	243,309

Of the above holdings, 10,520,338 units (2008: 10,069,831) relate to the EITF, with a net asset value of £74.0 million (2008: £105.9 million).

**10 Loans and advances**

Loans and Advances primarily represent fixed rate time deposits with short-term maturities and call notice deposits, placed with Debt Management Office by the CRND.

	<b>28 February</b>	29 February
	<b>2009</b>	2008
	<b>£000</b>	£000
Call notice deposits	<b>2,303,245</b>	2,080,122
Fixed term deposits	<b>1,637,908</b>	3,086,025
Ways & Means account	<b>1</b>	1
<b>Loans and advances holdings</b>	<b>3,941,154</b>	5,166,148

The comparative figures have been adjusted to include accrued interest on deposits of £94,868,000, which was included in note 11: Other Assets last year.

## 11 Other assets

Accrued Income reflects interest that has been contractually earned but remains unpaid at the year-end. It does not include unpaid dividends and distributions on stocks, shares and collective investment schemes where there is no contractual commitment to make such a distribution. The balance is comprised of the following elements

	<b>28 February 2009 £000</b>	29 February 2008 £000
<b>Client holdings</b>		
Dividends and coupons due	<b>2,094</b>	1,738
<b>Total client accrued income</b>	<b>2,094</b>	1,738
Other debtors <sup>2</sup>	<b>308</b>	9,900
<b>Total other assets</b>	<b>2,402</b>	11,638

## 12 Clients' cash account balances

The cash balances for which the Accountant General is liable at the year-end are

	<b>28 February 2009 £000</b>	29 February 2008 £000
Court Funds placed on basic account	<b>814,303</b>	869,791
Court Funds placed on special account	<b>3,634,582</b>	3,691,521
Unclaimed balances	<b>52,494</b>	49,575
Other suitors' monies deposited in the Supreme Court	<b>11,514</b>	2,345
Clients' monies held as foreign currency	<b>86,531</b>	19,796
<b>Total client cash balances</b>	<b>4,599,424</b>	4,633,028
Accrued interest	<b>57,620</b>	68,284
<b>Total client balances</b>	<b>4,657,044</b>	4,701,312

The comparative figures have been adjusted to include accrued interest which was included in note 14 : Other Creditors last year.

Unclaimed balances represent

- Money paid into court which has not been claimed by beneficiaries after 10 years from the last point of activity on the account; and
- Money paid to the CFO where the rightful owner cannot be found, and which therefore cannot be returned.

All balances below £10 are held as Cash.

2 Other Debtors represents receivables from Ministry of Justice for Children's Accounts Corrections.



**13 Clients' receipts and payments during year**

	<b>28 February 2009 £000</b>	29 February 2008 £000
<b>Opening balance 1 March</b>	<b>4,633,028</b>	4,767,899
Lodgments by clients	<b>962,733</b>	1,184,127
Sales of EITF units and other securities	<b>43,187</b>	37,077
Dividends	<b>6,153</b>	7,469
<b>Total lodgments from clients</b>	<b>1,012,073</b>	1,228,673
Payments to Clients	<b>(1,269,327)</b>	(1,582,745)
Cost of Purchase of EITF units and other securities	<b>(55,919)</b>	(37,437)
Transfer to HMCS	<b>(282)</b>	(3,908)
<b>Total payments to clients</b>	<b>(1,325,528)</b>	(1,624,090)
<b>Interest credited to court accounts</b>	<b>279,851</b>	260,546
<b>Closing Balance 28/29 February</b>	<b>4,599,424</b>	4,633,028

**14 Other Liabilities – Creditors**

	<b>28 February 2009 £000</b>	29 February 2008 £000
Hereditary Revenues held by CRND in Court Funds Investment Account	<b>347,583</b>	347,557
Interest balance due to Consolidated Fund	<b>4,732</b>	4,240
Balances due to Consolidated Fund	<b>352,315</b>	351,797
Reserves held by CRND in Court Funds Investment Account	<b>60,852</b>	94,867
Revaluation Reserve	<b>(99)</b>	0
Provisions	<b>308</b>	9,900
Client management expenses	<b>5,772</b>	17,900
Other Creditors	<b>218</b>	257
<b>Other liabilities: Creditors</b>	<b>419,366</b>	474,721

Hereditary revenues comprise realised capital gains on the disposal or maturity of debt securities within the CFIA.

Interest balance due to CF comprises surplus income due to CF but not paid at the period end.

Reserves comprise interest accrued at the period end within the CFIA.

Revaluation Reserve represents unrealised gains/(losses) on gilts within the CFIA.

Provisions represent amounts provided to correct Children's Accounts.

Client Management Expenses represent payments due to CFO but not paid at the period end.

## **15 Post balance sheet events**

Further to the changes to interest rates, which took effect on 1 February 2009, the following changes to interest rates have occurred

- on its Special Account the CFO paid interest at a rate of 1.5 per cent gross with instant access from 1 June 2009 to 30 June 2009, and 0.5 per cent gross with instant access from 1 July 2009; and
- on its Basic Account the CFO paid interest at a rate of 1.0 per cent gross with instant access from 1 June 2009 to 30 June 2009, and 0.3 per cent gross with instant access from 1 July 2009.

These Accounts are authorised for issue on 14 July 2009.

# Funds in Court in England and Wales – Account of the transactions of the Accountant General under Section 38 of The Administration of Justice Act 1982

## Accounts Direction given by HM Treasury

HM Treasury, in pursuance of section 45 of the Administration of Justice Act 1982, hereby gives the following Direction

- 1 The Accountant General of the Supreme Court shall prepare accounts for the financial year ending 28 February 2007 and for each subsequent financial year ending on the last day of February comprising
  - a a Foreword;
  - b a Statement of the Accountant General's Responsibilities;
  - c a Statement on Internal Control;
  - d an Income Account;
  - e a Balance Sheet; and
  - f a Cash Flow Statement

including such notes as may be necessary, to explain the transactions of the Accountant General under Section 38 of the Administration of Justice Act 1982, and for the purposes referred to in the following paragraphs.

- 2 The accounts shall be prepared so as to give a true and fair view of the state of affairs as at 28 February 2007 and subsequent financial year ends and of the income and expenditure and cash flows of the year just ended.
- 3 Subject to the requirements in (2) above, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom, to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account; and
  - b Any other relevant guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 A statement of accounts shall be sent to the Comptroller and Auditor General not later than the last day of September following the end of the period in respect of which the statement is made.
- 5 This direction shall be reproduced as an appendix to the accounts, and the Foreword should state that the accounts have been prepared in accordance with a direction given by HM Treasury in pursuance of section 45(2) of the Administration of Justice Act 1982.
- 6 This direction replaces the direction dated 31 July 1991.

*David Watkins*  
Head of Financial Reporting Policy Team, HM Treasury

7 August 2006

# Commissioners for the Reduction of the National Debt Court Funds Investment Account

## Foreword

### Introduction

These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND) and are prepared under a direction issued by HM Treasury in accordance with section 45(2) of the Administration of Justice Act 1982 (the Act).

### Brief history and background of the Court Funds Investment Account

The Court Funds Investment Account (the CFIA) backs the basic and special accounts operated by the Court Funds Office (CFO) for suitors' funds paid into Court in England and Wales.

By virtue of rules made under section 38(7) of the Act, on days when the Accountant General of the Supreme Court (the Accountant General) has excess cash in his account he remits the excess amount to CRND for investment; on days when the balance in his account is insufficient to meet demands, CRND make good the shortfall.

Section 39(1) of the Act authorises HM Treasury to make regulations setting out the range of investments in which CRND may invest money transferred to them by the Accountant General. Currently, investment is restricted to securities specified in paragraphs 1, 2, 3, 8, 9 and 9A of Part 2 of Schedule 1 to the Trustee Investments Act 1961. Until required to meet payments, the interest or dividends received on investments held by CRND is reinvested in authorised securities. The investments so made are held in the CFIA.

Section 39(2) of the Act requires the payment into the Consolidated Fund of any surplus interest or dividends received in any accounting year by CRND and Section 39(3) provides for any deficiency of interest or dividends to be made good out of the Consolidated Fund. The amount of any surplus or deficiency is obtained by deducting from the interest and dividends received by CRND the sum of

- the interest due to be paid or credited on funds in court;
- the sum required by the Lord Chancellor in respect of administering funds in court;
- the sum required by CRND in respect of expenses; and
- any sum HM Treasury requires to be set aside for depreciation in the value of securities.

Section 39(5) of the Act provides a guarantee by the Consolidated Fund of the Capital paid to CRND by the Accountant General.

The resources used to deliver CRND's objectives are accounted for within the UK Debt Management Office's (DMO) agency vote and reported in the Report and Accounts 2008-2009. The cost of managing the CFIA incurred by CRND is recharged to the CFIA; in 2008-2009, this amounted to £109,000 (2007-2008: £114,000).

Historically, the investments made by CRND have included gilt-edged securities with periods to maturity of up to 20-years. However, in October 2006 it was agreed with the Court Funds Office (CFO) that the CFIA's assets should more closely match the liabilities and as a consequence the medium and long-dated gilts were sold and the proceeds placed into short-term deposits with the Debt Management Account Deposit Facility (DMADF).

In 2008-2009 funds were largely concentrated in short-dated cash deposits (overnight to 6-months) with some investment in gilts in accordance with the investment mandate.

### Commissioners for the Reduction of the National Debt

CRND's main function is the investment and management of major Government funds. The investment powers differ from fund to fund.

There are eight Commissioners, but the Secretary and Comptroller General and Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions. There is no legislation that determines the specific responsibilities of the Secretary and Comptroller General and the Assistant Comptroller. However, in practice the role of the Secretary and Comptroller General is considered analogous to acting as the Accounting Officer for CRND. Therefore, the Secretary and Comptroller General takes responsibility for preparing and signing the accounts on behalf of the Commissioners.

The arrangements made between CRND and the CFO, in respect of the investment service provided by CRND are set out in a Memorandum of Understanding, which describes how CRND intend to achieve the agreed investment objectives.

### Audit arrangements

Section 45(1) of the Act requires the Commissioners to send accounts prepared by them to the Comptroller and Auditor General.

Under section 45(3) of the Act, the Comptroller and Auditor General examines, certifies and reports on the accounts and lays copies of them with his report before each House of Parliament.

The Secretary and Comptroller General has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that CFIA's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which the CFIA's auditors are unaware.

## Management Commentary

### Results for 2008-2009

During 2008-2009, the CFIA made an operating surplus before interest payable on funds in Court of £209.2 million (2007-2008: £260.6 million). This comprised interest receivable of £219.8 million (2007-2008: £291.4 million) less interest payable to the Consolidated Fund of £4.7 million (2007-2008: £4.2 million) and other expenditure of £5.9 million (2007-2008: £26.5 million).

The CFO withdrew £356.7 million (net of deposits) from the CFIA over the course of the year (2007-2008: net withdrawal of £365.5 million).

### Date of authorisation for issue

The accounts were authorised for issue on 16 July 2009.

*Jo Whelan*  
Secretary and Comptroller General to the Commissioners  
for the Reduction of the National Debt

10 July 2009

## Statement of Secretary and Comptroller General's responsibilities

Section 45(2) of the Act requires the Commissioners to prepare accounts for each financial year in the form and on the basis determined by HM Treasury.

The CFIA annual accounts are prepared on an accruals basis, as directed by HM Treasury and must give a true and fair view of the financial position of the CFIA at the year end and of the surplus or deficit and the cash flows for the financial year.

The Commissioners have appointed the Secretary and Comptroller General to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary and Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.

In preparing accounts an Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

# Statement on Internal Control

## Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the accounts. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the Statement on Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

It is also my responsibility to ensure that all CRND fund management activities are conducted with due regard to value for money and operated in line with client instructions. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 28 February 2009 and up to the date of approval of this account, and accords with Treasury guidance.

## Capacity to handle risk

The DMO has a formal risk management strategy and policy, which includes CRND activities, set by the DMO Managing Board. The DMO has risk management policies and has documented the risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during the period of increased uncertainty in the financial markets.

The DMO Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub-committee of the Managing Board meets weekly. The terms of reference of these committees and those of the Fund Management Committee and Risk Committee clearly set out their roles and responsibilities for providing the organisational capability to consider issues and make relevant decisions at the appropriate level.

Staff are required to signify that they have read and accepted the DMO's rules on Personal Dealing and the DMO's Policy on the Use of Information Systems and Technology, and that they are aware of and will continue to keep up to date with the DMO's policies with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions, including specific key risks they are expected to manage.



Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism.

## The risk and control framework

The DMO has various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risk.

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure the RMU is separate and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risks is facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis, to ensure issues highlighted by internal and external audit and other identified actions to improve the control environment are managed and progressed against agreed deadlines.

A key component of the CRND control framework is the segregation of duties to promote independent checking and avoid concentration of key activities or related controls in individuals or small groups of staff. In particular segregation of duties takes place between front and back office duties. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally. The Risk Management Unit runs checks on those sections of the Financial Services Authority handbook that are most pertinent to CRND activities.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. There is a Senior Information Risk Owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who acts as an advocate for information assurance at the Board and through internal discussions.

The DMO's Business Continuity Plan (BCP), including Disaster Recovery (DR) site and other arrangements, is subject to continual review and update with the SROs taking an active role during the year in progressing BCP improvements. A phased delivery of improvements was implemented over the period, including relocation of the DR site to a higher category data centre, and an increase of services available at the DR site. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

An up-to-date memorandum of understanding is in place with each client, outlining the respective responsibilities of CRND and the client. CRND has adopted a passive style of fund management for each client. CRND has established effective communication channels with each of its clients.

A controls team met periodically to review issues affecting the DMO's system of internal control (including CRND) and to recommend actions to management to implement changes where appropriate. The controls team comprises senior representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit.

Responsibility for supporting me as Accounting Officer in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee.

The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, National Loans Funds, Consolidated Fund, Contingencies Fund and the transactions of the Commissioners for the Reduction of the National Debt. The Chair of the Committee reports to me on matters relating to the Commissioners for the Reduction of National Debt. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The membership of the Committee as at 31 March 2009 was

- Colin Price, Chair, Non-executive Director of the DMO's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, Non-executive Director of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and
- Mark Clarke, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee meets quarterly.

### Review of effectiveness

As Secretary and Comptroller General, my review of the effectiveness of the system of internal control is informed by the work of executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I have been supported by the Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2008-2009 accounts in draft and provided me with its views before I formally signed the accounts.

- The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues. In particular it monitors and advises on development of CRND governance mechanisms.
- The DMO's Risk Management Unit conducts monthly Controls and Compliance testing providing the executive sub-committee of Managing Board with independent assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas. No significant internal control failures were identified during the period.
- During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including those covering CRND, to the Audit Committee throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The Internal Audit work programme is approved by the Audit Committee at the start of the year.
- Internal Audit attended each meeting of the Audit Committee to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.
- Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts. There are no matters arising from the work of Internal Audit in the period that would give rise to a separate comment in the Statement on Internal Control.

In my opinion, the system of internal control relating to CRND was effective throughout the financial year 2008-2009 and remains so on the date I sign this statement.

*Jo Whelan* 10 July 2009  
Secretary and Comptroller General to the Commissioners  
for the Reduction of the National Debt

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Court Funds Investment Account for the year ended 28 February 2009 under the Administration of Justice Act 1982. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the National Debt Commissioners, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and the Auditor

As described in the Foreword, the Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary and Comptroller General to discharge their responsibilities for the preparation of financial statements in accordance with the Administration of Justice Act 1982 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Comptroller General's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether they have been properly prepared in accordance with Administration of Justice Act 1982 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the Foreword and Management Commentary is consistent with the financial statements. I also report whether in all material respects the financial transactions of the Court Funds Investment Account conform to the authorities which govern them.

I also report to you, if in my opinion, proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed.

I review whether the Statement on Internal Control reflects the Commissioners for the Reduction of the National Debt's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls or form an opinion on the effectiveness of the Commissioners for the Reduction of the National Debt's corporate governance procedures or its risk and control procedures.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Comptroller in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Court Funds Investment Account's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that in all material respects the financial transactions conform with the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by HM Treasury, of the state of affairs of the Court Funds Investment Account as at 28 February 2009 and of its deficit, recognised gains and losses and cash flows for the year there ended;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by HM Treasury; and
- information, which comprises the Foreword and the Management Commentary, is consistent with the financial statements.

### **Opinion on regularity**

In my opinion, in all material respects the transactions of the Court Funds Investment Account conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

16 July 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Income and Expenditure Account for the year ended 28 February 2009

	Notes	<b>2009</b> <b>£000</b>	2008 £000
Interest income	2	<b>219,835</b>	291,397
Total income		<b>219,835</b>	291,397
Surplus interest payable to the Consolidated Fund	3	<b>(4,732)</b>	(4,239)
Other expenditure	4	<b>(5,881)</b>	(26,514)
Operating surplus before interest payable on funds in Court		<b>209,222</b>	260,644
Interest payable on funds in Court		<b>(243,237)</b>	(258,934)
(Deficit)/surplus for the year		<b>(34,015)</b>	1,710

## Statement of total recognised gains and losses for the year ended 28 February 2009

	<b>2009</b> <b>£000</b>	2008 £000
Net unrealised losses on gilts in the fair value reserve	<b>(99)</b>	0
(Deficit)/surplus for the year from the income and expenditure account	<b>(34,015)</b>	1,710
Total recognised (losses)/gains for the year	<b>(34,114)</b>	1,710

*The notes on pages 37 to 39 form part of these accounts.*

## Balance Sheet as at 28 February 2009

	Notes	2009 £000	2008 £000
<b>Assets</b>			
Gilts	5	1,065,781	0
Deposits with the Debt Management Account		3,941,154	5,166,147
<b>Total</b>		<b>5,006,935</b>	5,166,147
<b>Court Funds Office funds and liabilities</b>			
Court Funds Office funds	6	4,588,213	4,701,676
Reserves	8	60,853	94,868
Fair value reserve		(99)	0
Management fees due to the CFO		5,772	17,900
		<b>4,654,739</b>	4,814,444
Hereditary Revenues	7	347,464	347,464
Surplus interest due to the Consolidated Fund	3	4,732	4,239
<b>Total</b>		<b>5,006,935</b>	5,166,147

*The notes on pages 37 to 39 form part of these accounts.*

Jo Whelan  
Secretary and Comptroller General to the Commissioners  
for the Reduction of the National Debt

10 July 2009

## Cash Flow Statement for the year ended 28 February 2009

	<b>2009</b>	2008
	<b>£000</b>	£000
<b>Net cash flow from operating activities</b>		
Surplus for the year before interest payable on funds in Court	<b>209,222</b>	260,644
(Increase)/decrease in gilts	<b>(1,065,781)</b>	1,609,263
Increase/(decrease) in fair value reserve	<b>(99)</b>	0
(Increase)/decrease in deposits	<b>1,224,993</b>	(1,518,846)
(Increase)/decrease in other assets: debtors	<b>0</b>	8,500
Increase/(decrease) in other liabilities: creditors	<b>(11,635)</b>	5,939
	<b>356,700</b>	365,500
<b>Financing</b>		
Advanced by the client	<b>139,600</b>	176,900
Withdrawn by the client	<b>(496,300)</b>	(542,400)
	<b>(356,700)</b>	(365,500)
Increase/(decrease) in cash	<b>0</b>	0

*The notes on pages 37 to 39 form part of these accounts.*

# Notes to the Accounts for the Year Ended 28 February 2009

## 1 Accounting policies

These accounts have been prepared in accordance with a direction made by HM Treasury under section 45(2) of the Administration of Justice Act 1982.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified by the inclusion of certain investments at market valuation, and in accordance with applicable Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) in so far as is appropriate to the Investment Account. Securities transactions are included in the accounts on a trade date accounting basis.

### 1.2 Assets

#### Deposits

Deposits with the DMA & NLF are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.

#### Gilts

Gilts held by the fund are non-marketable gilts which mirror the equivalent marketable gilts and are treated as available for sale assets (non-derivative financial assets that are designated as available for sale). They are initially recognised on trade date, when the Fund enters into contractual arrangements with counterparties (primarily the National Loans Fund) to purchase securities. The assets are derecognised when the rights to receive cash flows have expired or the Fund transferred substantially all the risks and rewards of ownership. The fair value of a financial instrument on recognition is normally the transaction price. Following initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. Gains and losses arising from changes in fair value are recognised in the fair value reserve until sale when the cumulative gain or loss is transferred to the income and expenditure statement.

### 1.3 Income recognition

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument.

### 1.4 Administrative expenditure

Administrative costs are accounted for in the UK Debt Management Office Agency Resource Account.

## 2 Interest income

	<b>2009</b>	2008
	<b>£000</b>	£000
Gilts	<b>349</b>	1,175
Deposits with the DMA	<b>219,486</b>	290,222
	<b>219,835</b>	291,397



**3 Surplus interest payable to the Consolidated Fund**

	<b>2009</b>	2008
	<b>£000</b>	£000
Interest received in the year	<b>253,850</b>	289,686
Interest payable on Funds in Court	<b>(243,237)</b>	(258,933)
Management expenses payable	<b>(5,881)</b>	(26,514)
	<b>4,732</b>	4,239

The surplus interest payable to the Consolidated Fund is made up of the interest income received from investments, less the amount due to be paid or credited to funds in court and less expenses incurred in year from the Court Funds Office and the CRND. The interest income received from investments in the year is net of accrued interest of £19,991,436 on purchases of gilts (2007-2008: £nil).

**4 Other expenditure**

	<b>2009</b>	2008
	<b>£000</b>	£000
Cost of administering funds in court payable to the client	<b>5,772</b>	26,400
Management expenses payable to CRND	<b>109</b>	114
	<b>5,881</b>	26,514

**5 Gilts**

	<b>2009</b>	<b>2009</b>	2008	2008
	<b>Nominal</b>	<b>Fair Value</b>	Nominal	Fair Value
	<b>£000</b>	<b>£000</b>	£000	£000
Maturity: 1-5 Years				
Gilts – non marketable	<b>990,000</b>	<b>1,065,781</b>	0	0

**6 Court Funds Office funds**

	<b>2009</b>	2008
	<b>£000</b>	£000
Balance at 1 March	<b>4,701,676</b>	4,808,243
Advanced by the client	<b>139,600</b>	176,900
Withdrawn by the client	<b>(496,300)</b>	(542,400)
Interest payable on Funds in Court	<b>243,237</b>	258,933
Balance at 28 February	<b>4,588,213</b>	4,701,676

**7 Hereditary Revenues**

	<b>2009</b>	2008
	<b>£000</b>	£000
Balance at 1 March	<b>347,464</b>	347,464
Balance at 28 February	<b>347,464</b>	347,464

Hereditary Revenues are net capital profits realised by CRND on the sale or disposal of gilts, which might be surrendered to the Consolidated Fund if no longer required to provide a working surplus to insulate the CFIA against interest rate fluctuations.

## 8 Reserves

	<b>2009</b>	2008
	<b>£000</b>	£000
Balance at 1 March	<b>94,868</b>	93,158
(Deficit)/surplus for the year	<b>(34,015)</b>	1,710
Balance at 28 February	<b>60,853</b>	94,868

Unrealised gains and losses on gilts are shown separately in the fair value reserve.

## 9 Risk

### 9.1 Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the Court Funds Investment Account.

The investments of the Court Funds Investment Account comprise deposits and gilts. The deposits are with either the DMA or the National Loans Fund and are considered to have no exposure to credit risk because both accounts are backed by HM Government. Similarly gilts are considered to be free of credit risk because they have the backing of HM Government.

### 9.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Court Funds Investment Account is considered to comprise interest rate risk.

The interest returns on deposits are closely linked to the official Bank Rate.

The market value of gilts is sensitive to movements in interest rates. However, gilts tend to be held over the longer term to provide a guaranteed interest return, rather than to generate trading profits.

CRND monitors interest rate movements to help inform the Court Funds Investment Account client of potential issues and events. The fund is not subject to active management and thus no formal market risk parameters are in place.

### 9.3 Liquidity risk

Liquidity risk is the risk that the Court Funds Investment Account will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the Court Funds Investment Account are highly liquid to enable all client obligations to be met as they fall due.

## Appendix

### Funds in Court in England and Wales Investment Account

#### Accounts Direction given by the Treasury in accordance with Section 45 (2) of the Administration of Justice Act 1982

- 1 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 28 February 2009 (29 February in a leap year) and subsequent financial years comprising
  - a a Foreword;
  - b a Statement on Internal Control;
  - c an Income and Expenditure Account;
  - d a Statement of Total Recognised Gains and Losses;
  - e a Balance Sheet; and
  - f a Cash Flow Statement,

including such notes as may be necessary for the purposes referred to in the following paragraphs.

- 2 The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account.
  - b Any other relevant guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts and supersedes all previous Directions issued by HM Treasury.

*Chris Wobschall* 20 May 2009  
Head, Assurance and Financial Reporting Policy, Her Majesty's Treasury

# Ministry of Justice Equity Index Tracker Fund

## Foreword

These accounts are presented under Section 45 of the Administration of Justice Act 1982 (the Act).

### The Ministry of Justice Equity Index Tracker Fund

The Ministry of Justice Equity Index Tracker Fund was established on 1 September 2003. Within the Common Investment Fund, it replaced the previous Capital and High Yield Funds (which had merged on 10 April 2003).

#### 1 What is the Common Investment Fund?

The Fund is only available for investment of money belonging to clients or former clients of the Ministry of Justice (MoJ), previously known as the Department for Constitutional Affairs (DCA) individually or under a trustee arrangement, or under the control of certain Courts in England and Wales. It operates in a similar way to a unit trust where investors can buy units in a Fund. New investment monies are added to those already invested in the Fund and the fund manager uses it to buy a mixture of index tracking unit trusts. Depending on how the Fund performs, the value of units change and so does the income paid out to the investors each year. Units can be sold back to the Fund and the investor will receive the value of the units at that time.

#### 2 What does this report cover?

This report covers the performance of the Fund for the year ended 29 February 2008, together with some information for investors and their advisers.

#### 3 What is the legal basis for the Fund?

The Fund is an Unauthorised Unit Trust and was created under the Act which authorises the Lord Chancellor to make Common Investment Schemes for the purposes of investing funds held in Court and money held by any other person authorised to hold units in the Fund. The current scheme is governed by the Common Investment Scheme 2004 (SI 2004 No.266). On 1 March 2004, the right to own units in the Fund was extended to the Official Solicitor, the Public Trustee and clients of the Office of the Public Guardian (OPG)/Court of Protection wishing to hold units out of Court. In addition, certain former clients of the OPG/Court of Protection, the Court Funds Office (CFO) and The Official Solicitor and the Public Trustee (OSPT) were authorised to retain units in the Fund on termination of their connection with those offices. These changes came into effect as a result of authorisation by the Lord Chancellor pursuant to section 42(5)(b) of the Act.

#### 4 Why invest in the Fund?

The Ministry of Justice Equity Index Tracker Fund is a simple and cost-effective means of investing in the stock market over the medium to long term. Legal & General manages the Fund's assets on an index tracking basis aiming to match the returns of the major stock markets. 70 per cent of the Fund has exposure to UK shares with the remainder investing in the other global markets. Index trackers invest in a representative sample of all of the companies that make up the index that they are tracking, instead of the Fund manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the index being tracked.

## 5 What are The Lord Chancellor and The Accountant General's responsibilities?

### I The Lord Chancellor's responsibilities

Under Section 42(1) of the Act, the Lord Chancellor may make schemes (Common Investment Schemes) establishing common investment funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act. Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the common investment funds established. As indicated above, the Lord Chancellor appointed Legal and General (Unit Trust Managers) Limited to be the Investment Manager for the Ministry of Justice Equity Index Tracker Fund for the financial period from 1 September 2008.

Under Section 42(5) units in the Common Investment Scheme shall be allotted to and held by the Accountant General and the Accountant General of the Supreme Court of Judicature of Northern Ireland and any other person authorised by the Lord Chancellor. In this context, since the inception of this Common Investment Scheme, the list of authorised investors to whom units in the Common Investment Fund may be allotted and held by, has been extended to include 'other' investors from the following

- i the Public Trustee either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- ii the Official Solicitor either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- iii any trustee or trustees, if more than one, of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust immediately prior to such retirement;
- iv any beneficiary of a trust or estate in respect of which the Public Trustee or Official Solicitor acts solely or jointly with any other person or persons as trustee or personal representative, in relation to any units held in the trust or estate to which the beneficiary has become absolutely entitled;
- v any beneficiary of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust to which the beneficiary has become absolutely entitled;
- vi any patient whose property and affairs are managed by the Court of Protection and whose funds are not held in court in the name of the Accountant General;
- vii any person who is restored to the management of his property and affairs by order of the Court of Protection, in relation to any units held by him or by the Accountant General on his behalf immediately prior to the making of such an order;
- viii any person entitled by a direction of the court to withdraw funds retained in court under Part 21.11 of the Civil Procedure Rules 1998 on the ground that he is no longer incapable of managing and administering his own affairs, in relation to any units held on his behalf by the Accountant General immediately prior to the making of such a direction;
- ix any person who has attained majority and on whose behalf units were held by the Accountant General during his minority, in relation to any units held on his behalf by the Accountant General upon the attainment of his majority;
- x any person entitled to withdraw funds from court by application under section 5(2) of the Law Reform (Miscellaneous Provisions) Act 1971, in relation to any units held by the Accountant General on her behalf immediately prior to the making of such an application;
- xi the investment manager of the Fund on his own account in the ordinary course of fund management, subject to the terms of his appointment; and
- xii any person acting in his capacity as nominee for any person included in (i) to (viii) above.

The total value of 'other' investors is shown in Note 15.

## II Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Karen Wheeler as Accountant General of the Supreme Court on 1 October 2008. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. Her relevant responsibilities as Accounting Officer, including her responsibilities for the propriety and regularity of the funds for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by Treasury and published in 'Managing Public Money.'

## III Management and Investment of Funds in Court

As set out in section 38 of the Act, the Accountant General of the Supreme Court is responsible for the management and investment of the Funds in Court and under section 43 of the same Act, is responsible for making good defaults with respect to any money, securities and effects for which he is responsible.

### 6 How does the Accountant General honour her responsibilities?

The Accountant General manages her responsibilities and associated risks through the Court Funds Office (CFO). The Court Funds Office (CFO) manages funds held in Court in the name of the Accountant General of the Supreme Court under the Act. Certain funds may be invested in Common Investment Schemes. Under the direction of the Court and on behalf of the Accountant General, the responsibilities of the Court Funds Office includes

- buying and selling units in the Common Investment Scheme (on behalf of eligible investors);
- maintenance of a register of unitholders in the Common Investment Fund (albeit only on behalf of beneficiaries of the Court Funds Office – see note 14 for the split of assets by investment channel);
- distribution to unitholders of dividends calculated by the Manager;
- payment of Investment Manager's fees;
- investment management oversight through, until it was disbanded on 30 June 2008, the Strategic Investment Board (SIB), which advised the Ministry of Justice on investment strategy and performance monitoring. Two former members of the SIB, Mr Alan Clifton and Dr Ros Altmann, were appointed as non-executive members of the Court Fund Office Management Board on 8 August 2008. Since this time, Mr Alan Clifton and Dr Ros Altman have advised the Court Funds Office in respect of the client investment activities; and
- the implementation of a control framework with the Investment Manager to provide sufficient assurance to the Accounting Officer.

### 7 Accounts and Audit

These accounts are in respect of the Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2009 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act as detailed on page 64. The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act. The responsibilities of the Comptroller and Auditor General are set out in the Certificate and Report as detailed on pages 50 and 51. The notional audit fee for the audit of Funds in Court Part C's Financial Statements for the year ended 28 February 2009 will be £21,000. This notional fee is disclosed in the MoJ resource account.

The Managing Director and the Accountant General have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Fund's auditors are aware of that information. So far as they are aware, there is no relevant audit information of which the Fund's auditors are unaware

*S D Thomas*  
 Managing Director  
 Legal & General  
 (Unit Trust Managers) Limited  
 14 July 2009

*Karen Wheeler*  
 Accountant General of  
 the Supreme Court  
 14 July 2009

## Investment Manager's Report

### Investment Strategy

The Fund strategy is to aim to track the capital return of the composite benchmark by investing in Legal & General authorised unit trusts. The Fund shall be invested in the following proportions subject to the control ranges

	<b>control ranges</b>
70 per cent FTSE All-Share Index	+/- 2 per cent
30 per cent FTSE World (ex-UK) Index	+/- 2 per cent

The FTSE All Share Index exposure is provided by the purchase of units in the Legal & General UK Index Trust.

The FTSE World (ex-UK) Index exposure is provided by the purchase of units in the following unit trust: Legal & General International Index Trust.

Prior to 31 March 2008, the FTSE World (ex UK) Index exposure was provided by the purchases of the following Unit Trusts:

Legal & General US Index Trust

Legal & General European Index Trust

Legal & General Pacific Index Trust

Legal & General Japan Index Trust

The combination of unit holdings in these trusts reflected their relative market weightings in the FTSE World (excluding UK) Index, subject to the control range, although they did not provide exposure to some smaller overseas markets.

The target tracking deviation for the Scheme is plus or minus 0.5 per cent (measured on an ex ante basis) in two out of every three consecutive years before fees.

The Investment Strategy has been set after consultation with the Ministry of Justice, acting on the advice of the Strategic Investment Board (SIB). The SIB was a public body which advised on the investment activities the of Public Guardianship Office, the Official Solicitor, the Public Trustee and the Court Funds Office. The SIB ceased to exist on 30 June 2008.

The FTSE All-Share and All-World (ex-UK) indices are calculated by FTSE International Limited (FTSE). FTSE does not sponsor, endorse or promote this product.

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### Manager's Investment Report

Over the year under review, the Equity Index Tracker Fund fell by 34.02 per cent. While the composite benchmark fell by 34.03 per cent, producing a tracking deviation of 0.01 per cent, . The published price of the Fund's units valued at 12 noon fell by 32.53 per cent during the year under review.

## Tracking deviation

The table below shows the Fund Performance for the period from 29 February 2008 to 28 February 2009, with the benchmark performance, which is comprised of 70 per cent FTSE All-Share Index and 30 per cent FTSE World (ex-UK) Index. Prior to 2 September 2008 the benchmark comprised of 80 per cent FTSE All-Share Index and 20 per cent FTSE World (ex-UK) Index.

	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	
Total Fund	-2.43	5.83	-0.14	-7.74	-3.35	4.79	
Benchmark	-2.52	5.83	-0.14	-7.73	-3.36	4.78	
Relative	0.09	0.00	0.00	-0.01	0.01	0.01	
	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Year total
Total Fund	-12.44	-11.78	-2.20	5.75	-7.03	-7.80	-34.02
Benchmark	-12.44	-11.87	-2.15	5.83	-6.95	-7.81	-34.03
Relative	0.00	0.10	-0.04	-0.07	-0.09	0.01	0.01

Source: Legal & General Investment Management (LGIM), as at 28 February 2009.

Past performance is not a guide to future performance.

The value of investments and income from them may go down as well as up.

Exchange rate changes may cause the value of any overseas investments to rise or fall.

In order to calculate the tracking performance of the Fund, the capital only performance of the underlying unit trusts is compared with the capital performance of the composite benchmark. This is because adjustments have to be made for accrued income within the underlying trusts. We also use special close of trade values for the underlying unit trusts in order to make a valid comparison with the indices.

## Distribution review

Distributions were made by Legal & General UK Index Trust, the Legal & General International Index Trust, and the Legal & General Pacific Index Trust. These distributions are held in a cash income account within the Equity Index Tracker Fund until they are paid out at the dividend dates on 10 April and 12 October. The distributions for the year are set out in the Distribution Tables on page 61.

## Market/economic review UK Equities

The last twelve months were characterised by extreme trading conditions and fundamental macroeconomic change. Investors had to endure unprecedented market volatility, steep equity market declines, the worst credit market conditions in more than fifty years and a collapse in commodity prices. The inflationary pressures which were building during the first part of the year vanished and this triggered an aggressive policy response from governments and central banks across the globe. As a result, UK equities declined 36.0 per cent, as measured by the FTSE All-Share index during the year under review.



## Overseas equities

US equities, as measured by the FTSE World USA Index declined 20.3 per cent during the year under review.

The US Government and US Federal Reserve (Fed) are continuing to use every means at their disposal to boost the financial system. This has put the US ahead of some other regions in terms of easing of policy, which will eventually support some form of economic recovery. However, the global economic slow down which has now taken hold will continue to act as a big drag on US corporate earnings – consensus estimates that US earnings still need to be revised down significantly.

European equities, as measured by the FTSE World Europe (ex UK) Index, declined 37.7 per cent during the year under review. As lending conditions have deteriorated, access to trade credit has become prohibitively expensive and, as a result, global trade came to an abrupt halt and continues to struggle. This has caused significant issues for the world's second largest exporter, Germany; economic data continues to paint a picture of a region in economic decline.

Both economic and corporate news flow has been disappointing in Japan, suggesting the country has not necessarily escaped a sharp downturn in growth. Recent economic data shows that the world's second largest economy shrank during the third quarter of 2008, by more than the government and market participants had expected. Faced with a slowing global economy, Japanese exporting companies have reined in their spending, reduced production and many are cutting jobs. Over the year under review, the Japanese equity market, as measured by the FTSE World Japan Index, lost 15.5 per cent.

Emerging economies have also fallen victim of the sharp deterioration in the global economic backdrop. Slowing growth has now spread from the developed world, and has started to impact China. The region has been particularly hurt by the dramatic decline in the availability of trade finance and the consequences that has for global trade. As equity market losses mount in the US and Europe, global investors have continued to aggressively reduce their exposure to emerging market regions, irrespective of valuation.

On the whole, Asian equities, as measured by the FTSE World Asia Pacific (ex Japan) Index fell 35.9 per cent during the year under review.

(All index movements have been sourced from Bloomberg on a capital only basis, in Sterling adjusted terms).

## Outlook

We believe 2009 will be the first time that world GDP contracts since records began. Slowing growth, coupled with a collapse in commodity prices, will most likely lead to headline inflation turning negative across many countries during this year. As a result, we anticipate even more aggressive monetary easing policies from major central banks than the market is currently pricing in.

We expect earnings to decline significantly in 2009 and consensus estimates are finally starting the slow process of reflecting negative earnings growth this year, although this process certainly has further to go. One key area of risk is the level of dividends the market will generate in 2009. The market has historically been dominated by banks and oil companies, however, banks now comprise a much smaller share of the index and they have cut their dividends. The lower oil price has increased the risk of dividend cuts for the oil companies. Therefore, the overall payout for UK equities could potentially fall fairly significantly.

Details of the management of the underlying unit trusts can be found in those trusts' report and accounts which are available on request from Legal and General on 0370 050 0955.

Call charges will vary. We may record and monitor calls.

Legal & General Investment Limited  
(Investment Adviser)  
17 March 2009

# Manager's Statement on Internal Control

## 1 Scope of responsibility

As Managing Director, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ministry of Justice Equity Index Tracker Fund policies, aims and objectives, whilst safeguarding the public funds and assets of unitholders for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

The operation of the Ministry of Justice Equity Index Tracker Fund is governed by the Investment Strategy, which was set by the Lord Chancellor on the advice of the Strategic Investment Board (SIB) up to its disbandment on 30 June 2008 and thereafter by the Court Funds Office Management Board. The performance of the Fund is reported via quarterly management information, which ensures that the objectives of index tracking are fulfilled. Quarterly meetings are also held between Legal & General and the SIB (which includes personnel from the Ministry of Justice) to discuss operational issues and investment strategies.

The accounts produced at the accounting year end are audited by the Comptroller and Auditor General, to ensure the Fund has operated within its stated strategy and the accounts are in line with best accounting and commercial practice. In this way, the testing of all material amounts within the accounts are verified to ensure the safeguarding of assets.

Assets of the Fund are held by an appointed Custodian who is separate to Legal & General, to ensure that the assets are safe guarded against misuse by ensuring all are held in the Fund's name.

## 2 Purpose of system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2009 and up to the date of approval of the final report and accounts.

## 3 Capacity to handle risk

Unit Trust (UT) sits within the savings division of Legal & General Group. UT have a Risk and Compliance function, that are developing a framework in conjunction with requirements under the Financial Services Authority's (FSA) Prudential Sourcebook. The risk and compliance function operates within the Legal & General group risk management framework.

The Risk Director, Unit Trusts, reports directly to the Risk Director, savings, and is authorised under the FSA's Approved Person regime, with responsibility for Controlled Function 29 Risk Assessment.

UT adopt and apply the Legal & General Group risk policies, as follows

- Credit Risk Policy
- Market Risk Policy
- Liquidity Risk Policy
- Operational Risk Policy

Each policy, prepared in accordance with Group standards, documents the company's appetite for that particular risk. Each policy is regularly monitored, with policies being ratified on an annual basis.

## 4 The risk and control framework

UT maintains a Risk Database, with risk scores calculated using the product of impact and likelihood scores. The database facilitates the recording of risk owners, controls in place, key risk indicators and control weaknesses. The Risk Database has formed the basis for recording and reviewing risks across the company.

Risk Management is delegated by the Legal & General unit Trust Managers Board to the savings Risk & Compliance Committee. The Committee was formed in 2009 to maintain oversight of risk management, and is the successor of Wealth Risk and Compliance Committee which formed in 2007. Membership is as follows

- Group Executive Director (Savings)
- Managing Director (Retail Savings)
- Managing Director (Workplace Savings)
- Managing Director (Specialist Savings)
- Managing Director (Unit Trusts)
- Finance Director (Savings)
- Head of HR (Savings)
- With Profits Actuary

The framework below demonstrates the risk framework within UT

- Sits within the regulatory environment (FSA, HM Revenue & Customs, etc.)
- Has defined risk policies, describing the risk tolerance and management and reporting processes
- Follows formalised processes to identify, assess, monitor and control risk

Embedding the risk framework within the business remains a key objective and priority for UT and Compliance Risk, who have provided clear reporting lines for all risk events. This ensures that risk events are communicated and escalated appropriately.

## 5 Review of effectiveness

As Managing Director, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the internal control is informed by the work of the internal auditors and the executive managers within UT who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and the savings Risk and Compliance Committee, and a framework to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the control environment is tested through risk-based monitoring, carried out by Group risk and Compliance and Internal Audit. In addition, external reviews are undertaken by external auditors.

Any recommendations made to address control weaknesses are recorded by Unit Trusts division on the Risk Database and Regulatory Management on the Audit Recommendations Database. The status of audit actions are tracked by Management and reported at the Unit Trust Management Committee.

## 6 Significant internal control problems

There are no significant internal control problems to report.

*SD Thomas*  
Managing Director  
Legal & General (Unit Trust Managers) Limited

14 July 2009

# Respective responsibilities of the Lord Chancellor and Investment Manager

## Lord Chancellor's responsibilities

Under section 42 (1) of the Administration of Justice Act 1982 (the Act), the Lord Chancellor may make schemes (Common Investment Schemes) establishing Common Investment Funds for the purpose of investing funds in court and other monies defined under section 42(5)(b) of the Act.

Under section 42 (2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established. On 1 September 2003, the Lord Chancellor appointed Legal & General (Unit Trust Managers) Limited as the Investment Manager of the Fund.

## Investment Manager's responsibilities

Under section 45 (1) (c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager is responsible for preparing the financial statements in respect of the Common Investment Scheme, Equity Index Tracker Fund.

Treasury Direction requires the Investment Manager to follow best practice. In preparing the Funds Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2008 as updated by additional requirements from the Financial Services Authority (from time to time) and to the extent that such requirements are relevant to the Common Investment Fund. These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of income/expenditure for the period. In preparing the accounts the Manager is required to

- select suitable accounting policies and apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds to the extent that such requirements are relevant to the Common Investment Funds;
- follow applicable accounting standards; and
- keep proper accounting records, which enable the Investment Manager to demonstrate that the accounts as prepared comply with the above requirements.

The Investment Manager is responsible for the management of the Funds in accordance with the Deed of Appointment with the Lord High Chancellor dated 3 July 2003 and the Common Investment Scheme Statutory Instrument 2004 No. 266.

# Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2009 under section 45 (3) of the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Net Assets attributable to Unitholders, the Balance Sheet, the related notes and the Distribution Tables. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of the Lord Chancellor, Investment Manager and Auditor

### The Lord Chancellor's responsibilities

As explained in the Foreword, under Section 42 (1) of the Administration of Justice Act 1982 (the Act), the Lord Chancellor may make schemes (Common Investment Schemes) establishing Common Investment funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act. Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established. As explained in the Foreword, the Lord Chancellor appointed Legal & General Unit Trust Managers Ltd to be the Investment Manager for the Ministry of Justice Equity Index Tracker Fund for the period 1 March 2008 to 28 February 2009.

### The Investment Manager's responsibilities

The Investment Manager is responsible for preparing the Investment Manager's Report and the financial statements in accordance with Section 45 (1) (c) of the Administration of Justice Act 1982 and HM Treasury directions made thereunder. These responsibilities are set out in the Statement of the respective responsibilities of the Lord Chancellor and the Investment Manager.

### The Auditor's responsibilities

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland). I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Lord Chancellor's responsibilities and the Investment Manager's Report, given in the Foreword, is consistent with the financial statements. I also report whether, in all material respects, the financial transactions of the Ministry of Justice Equity Index Tracker Fund conform to the authorities which govern them.

In addition, I report to you if Legal & General (Unit Trust Managers) Limited has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Investment Manager's Statement on Internal Control reflects the Investment Manager's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether the Investment Manager's statement covers all risks and controls, or form an opinion on the effectiveness of Legal & General (Unit Trust Managers) Limited corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword, and consider whether it is consistent with the audited financial statements. This information comprises the Performance Review and General Information. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Investment Manager in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Ministry of Justice Equity Index Tracker Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by HM Treasury, of the financial position of Ministry of Justice Equity Index Tracker Fund as at 28 February 2009 and of the total return and change in unitholders' net assets for the year ended 28 February 2009;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions made thereunder; and
- information given within the Foreword, which comprises the Lord Chancellor's responsibilities and the Investment Manager's Report is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects, the financial transactions of the Ministry of Justice Equity Index Tracker Fund conform to the authorities which govern them.

## Report

I have no observations to make on these financial statements.

*Amyas CE Morse*  
Comptroller and Auditor General

16 July 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Portfolio Statement as at 28 February 2009

All investments are in distribution units unless otherwise stated. The percentages in brackets show the equivalent sector holdings at 29 February 2008.

<b>Investment</b>	<b>Holding/ nominal value</b>	<b>Market value £</b>	<b>% of net assets</b>
<b>Unit Trusts investing in UK shares – 70.65% (79.62%)</b>			
Legal & General UK Index Trust	74,261,470	57,946,226	70.65
<b>Unit Trusts investing in overseas shares – 29.34% (20.20%)</b>			
Legal & General International Index Trust	63,934,232	24,064,845	29.34
<b>Portfolio of investments</b>		82,011,071	99.99
<b>Net other assets</b>		3,149	0.01
<b>Net assets</b>		<b>82,014,220</b>	<b>100.00</b>

*The notes on pages 55 to 60 form part of these accounts.*

## Statement of Total Return for the year ended 28 February 2009

	Notes	28 February 2009		Restated 29 February 2008	
		£	£	£	£
Income					
Net capital losses	2		<b>(39,809,813)</b>		(6,542,924)
Revenue	3	<b>3,881,067</b>		2,942,045	
Expenses	4	<b>(202,555)</b>		(256,566)	
Finance costs: Interest	6	<b>0</b>		0	
Net revenue before taxation		<b>3,678,512</b>		2,685,479	
Taxation	5	<b>(245,336)</b>		(181,317)	
Net revenue after taxation for the year			<b>3,433,176</b>		2,504,162
Total return before distributions			<b>(36,376,637)</b>		(4,038,762)
Finance costs: Distributions	6		<b>(3,433,176)</b>		(2,504,162)
<b>Change in net assets attributable to Unitholders from investment activities</b>			<b>(39,809,813)</b>		<b>(6,542,924)</b>

## Statement of change in Unitholders' Net Assets for the year ended 28 February 2009

		28 February 2009		29 February 2008	
		£	£	£	£
Opening net assets attributable to Unitholders			<b>117,141,440</b>		87,173,960
Amounts received on creation of units		<b>8,411,202</b>		39,837,517	
Amounts paid on cancellation of units		<b>(3,728,609)</b>		(3,327,113)	
			<b>4,682,593</b>		36,510,404
Change in net assets attributable to Unitholders from investment activities			<b>(39,809,813)</b>		(6,542,924)
<b>Closing net assets attributable to Unitholders</b>			<b>82,014,220</b>		<b>117,141,440</b>

*These notes on pages 55 to 60 form part of these accounts.*

\* Comparative figures have been restated for the presentation changes following adoption of the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008 (see note 1(a)).



## Balance Sheet as at 28 February 2009

	Notes	28 February 2009		29 February 2008	
		£	£	£	£
<b>Assets</b>					
Investments assets			<b>82,011,071</b>		116,929,073
Debtors	7	<b>117,741</b>		197,081	
Cash and bank balances	8	<b>1,877,441</b>		<u>1,739,959</u>	
Total other assets			<b>1,995,182</b>		<u>1,937,040</u>
<b>Total assets</b>			<b><u>84,006,253</u></b>		<u>118,866,113</u>
<b>Liabilities</b>					
Investment liabilities			<b>0</b>		0
Creditors	9	<b>(107,365)</b>		(199,690)	
Distribution payable on distribution units		<b>(1,884,668)</b>		<u>(1,524,983)</u>	
Total other liabilities			<b>(1,992,033)</b>		<u>(1,724,673)</u>
<b>Total liabilities</b>			<b>(1,992,033)</b>		<u>(1,724,673)</u>
Net assets attributable to Unitholders			<b><u>82,014,220</u></b>		<u>117,141,440</u>

*The notes on pages 55 to 60 form part of these accounts.*

SD Thomas  
 Managing Director  
 Legal & General (Unit Trust Managers) Limited

14 July 2009

# Notes to the Financial Statements as at 28 February 2009

## 1 Accounting policies

### *a Changes in accounting policies*

The accounts are subject to an Accounts Direction given by the Treasury (as detailed on pages 64 to 65) and are prepared under the historical cost basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in November 2008 (the IMA SORP 2008).

Previously the financial statements were prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in December 2005. The effect of the IMA SORP 2008 has been to adopt presentational changes to the Statement of Total Return and comparative figures have been restated accordingly.

There is no impact on the return for the year or the net assets attributable to Unitholders. The effects of these changes on the current and prior year are as follows

#### **Transaction charges**

Transaction charges were previously recognised in expenses but are now included in net capital losses. The effect of this change has been to reduce expenses by £735 (2008: £1,187) and to increase net capital losses by the same amount.

### *b Recognition of revenue*

Revenue from distribution and accumulation units in collective investment schemes is recognised when the distribution is declared. Interest and revenue from short term deposits is recognised on an accruals basis. All other revenue is recognised on accruals basis.

Equalisation on distributions received from the underlying investments is treated as capital property of the Fund.

### *c Treatment of expenses*

The Fund receives a rebate for managerial fees suffered by underlying collective investment schemes. These are treated as Revenue or capital depending on the treatment of the Manager's fees in the underlying investment.

### *d Distribution policy*

Realisable revenue, after deduction of those expenses which are chargeable in calculating the distribution, will be paid to those unitholders with a holding at ex-dividend date. The Manager's periodic fee is deducted from Revenue for the purpose of calculating the distribution. In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable revenue for the period. All remaining revenue is distributed in accordance with the COLL (Collective Investment Schemes Source book).

Distributions which have remained unclaimed by Unitholders for over six years are credited to the capital property of the Fund.

### *e Basis of valuation of investments*

All investments are valued at their fair value as at 12 noon on 27 February 2009, being the last working day of the accounting year. The fair value for collective investment schemes is the cancellation price or bid price for dual priced funds and single price for single priced funds.

Investments in securities by Legal & General on behalf of the Ministry of Justice Equity Index Tracker Fund are carried out on an arm's length basis following the best execution principles thereby ensuring that Legal & General meets its regulatory obligations in respect of best execution.

*f* Taxation

Provision is made for taxation at current rates on the excess of unfranked investment income over expenses.

Deferred tax is provided for on all timing differences that have originated but not reversed by the balance sheet date, other than those differences that are regarded as permanent. Any liability to Deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

**2 Net capital losses**

	<b>28 February 2009</b>	29 February 2008
	£	£
The net capital losses during the year comprise		
Non-derivative securities	<b>(39,809,078)</b>	(6,541,737)
Transaction charges	(735)	(1,187)
Net losses on investments	<b>(39,809,813)</b>	(6,542,924)

\* Comparative figures have been restated for the presentation changes following adoption of the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008 (see note 1(a)).

**3 Revenue**

	<b>28 February 2009</b>	29 February 2008
	£	£
Franked dividend distributions	<b>2,451,750</b>	1,778,894
Unfranked dividend distributions	<b>809,416</b>	541,667
Bank interest	<b>32,003</b>	35,430
Management fee rebates from Legal & General Investment Management Limited	<b>587,898</b>	585,882
Interest Supplement	<b>0</b>	172
	<b>3,881,067</b>	2,942,045

**4 Expenses**

	<b>28 February 2009</b>	29 February 2008
	£	£
Payable to the Manager, associates of the Manager and agents of either of them		
Manager's periodic fee	<b>187,922</b>	193,375
Registration fees	<b>9,655</b>	8,766
VAT prior period adjustment	<b>0</b>	49,029
	<b>197,577</b>	251,170
Payable to the Trustee, associates of the Trustee and agents of either of them		
Safe custody fees	<b>4,978</b>	5,396
<b>Total expenses</b>	<b>202,555</b>	256,566

## 5 Taxation

### a Analysis of taxation charge in year

	<b>28 February 2009</b>	29 February 2008
	£	£
Corporation tax	<b>245,352</b>	181,317
Corporation tax (prior year adjustment)	<b>(16)</b>	0
Current tax [note 5(b)]	<b>245,336</b>	181,317
Deferred tax [note 5(c)]	<b>0</b>	0
<b>Total taxation</b>	<b>245,336</b>	181,317

### b Factors affecting taxation charge for the year

The current tax charge excludes capital gains and losses for the reason that Authorised Unit Trusts are not subject to Corporation tax on these items. Although the Equity Index Tracker Fund is not in itself an Authorised Unit Trust, it invests exclusively in other Authorised Unit Trusts operated by the Manager. The Corporation tax benefit is therefore passed on to the Equity Index Tracker from its underlying holdings. Current tax differs from taxation assessed on net income before taxation as follows

	<b>28 February 2009</b>	29 February 2008
	£	£
Net revenue before taxation	<b>3,678,512</b>	2,685,479
Net revenue before taxation multiplied by the applicable rate of Corporation tax at 20 per cent (2008: 20 per cent)	<b>735,702</b>	537,096
<i>Effects of</i>		
Prior year Corporation Tax adjustment	<b>(16)</b>	0
Revenue not subject to taxation	<b>(490,350)</b>	(355,779)
Current tax	<b>245,336</b>	181,317

### c Provision for deferred tax

At the period end there is a potential deferred tax asset of £33,752 (£33,752 as at 29 February 2008) due to excess unutilised foreign tax available for double taxation relief. The Fund is not expecting to accrue foreign dividends against which this can be offset in the foreseeable future and therefore no deferred tax asset has been recognised (29 February 2008: same)

## 6 Finance costs distributions

The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units and comprise

	<b>28 February 2009</b>	29 February 2008
	£	£
Interim distribution	<b>1,605,380</b>	1,329,218
Final distribution	<b>1,884,668</b>	1,524,983
	<b>3,490,048</b>	2,854,201
<i>Add</i> Revenue deducted on cancellation of units	<b>46,344</b>	32,841
<i>Less</i> Revenue received on creation of units	<b>(103,216)</b>	(382,880)
<b>Distributions for the year</b>	<b>3,433,176</b>	2,504,162
<b>Interest</b>		
Bank overdraft interest	<b>0</b>	0
<b>Total finance costs</b>	<b>3,433,176</b>	2,504,162

## 7 Debtors

	<b>28 February 2009</b>	29 February 2008
Sales awaiting settlement	<b>78,189</b>	158,000
Accrued income	<b>38,973</b>	33,991
Bank interest	<b>579</b>	5,090
	<b>117,741</b>	197,081

## 8 Cash and bank balances

	<b>28 February 2009</b>	29 February 2008
Cash and bank balances	<b>1,877,441</b>	1,739,959
Net uninvested cash	<b>1,877,441</b>	1,739,959

## 9 Creditors

	<b>28 February 2008</b>	29 February 2008
Amounts payable for cancellation of units	<b>79,999</b>	160,005
Accrued expenses	<b>13,897</b>	1,685
Corporation tax	<b>13,469</b>	38,000
	<b>107,365</b>	199,690

## 10 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (29 February 2008: same).

## 11 Risk in relation to financial instruments

The Fund's investment objective is stated on page 44. In pursuing its objective, the Fund holds financial instruments which expose it to various types of risk. The main risks, and the Manager's policy for managing these risks, which were applied consistently throughout the current and preceding year, are set out below.

### *a Credit and liquidity risk*

Credit risk is the risk of suffering loss due to another party not meeting its financial obligations. The primary sources of this risk to the Fund is for trade counter parties to fail to meet their transaction commitments. This risk is managed by appraising the credit profile of financial instruments and trade counter parties.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the Fund is the liability to Unitholders for any cancellation of units. This risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities.

### *b Market risk*

Market risk arises mainly from uncertainty about future prices. The primary source of this risk to the Fund is the potential movement in the value of financial instruments held as a result of price fluctuations. Given that the Fund invests in other collective investment schemes, there is market risk exposure in respect of the financial instruments held by these entities. The Manager adheres to the investment guidelines and borrowing powers established in the Trust Deed, the Prospectus and the Collective Investment Schemes Source book. In this way, the Manager monitors and controls the exposure to risk from any type of security, sector or issuer.

### *c Foreign currency risk*

Foreign currency risk is the risk of movements in the value of overseas financial instruments as a result of fluctuations in exchange rates. At the balance sheet date the Fund had no significant exposure to currencies other than Sterling. However, the underlying collective investment schemes may have currency risk exposure.

### *d Interest rate risk*

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates. The Fund's only interest bearing financial instruments were its bank balances and overdraft facilities as disclosed in note 8. Cash is deposited, and overdraft facilities utilised, on normal commercial terms and earn or bear interest based on LIBOR.

### *e Derivative risk – Sensitivity analysis*

Derivative risk arises from uncertainty about future market movements. This risk is managed by the policies shown within Market risk.

At the balance sheet date, no derivatives were held that could impact the Fund in a significant way. (29 February 2008: same)

### *f Fair value*

The fair value of a financial instrument is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction. There is no significant difference between the value of the financial assets and liabilities, as shown in the financial statements, and their fair value.

## 12 Post balance sheet events

In accordance with the requirements of Financial Reporting Standards, post balance sheet events are considered up to date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

### 13 Ultimate controlling party and related party transactions

The CFO, who provide investment management oversight services for the Fund, are a related party (as defined by Financial Reporting Standard (FRS) 8). Details of units created and cancelled are shown in the Statement of Change in Unitholders' Net Assets. Note 14, shows the split of existing assets by investment channel.

Legal & General Investment Management Limited, who provide investment management services are a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in L&G unit trusts, which had a market value of £82,011,071 at 28 February 2009 (29 February 2008: £116,929,073).

Management fees paid to Legal & General Investment Management Limited are shown in note 4. The balances due in respect of these fees is £12,260 (29 February 2008: £nil). Management fee rebates received from Legal & General Investment Management are shown in note 3. Rebates receivable at the year end amount to £38,973 (29 February 2008:£33,991). Other than the related party transactions disclosed above, none of the key management staff nor any other related party has undertaken any material transactions with the Fund during the year.

### 14 Split of Assets by Investment Channel

	Net asset value of fund	Net asset value per unit	Number of units in issue	%
Investment Channel 28 February 2009				
Court Funds Office (CFO)	73,963,280	703.05p	10,520,338	90.18
Official Solicitor and Public Trustee (OSPT)	2,865,648	703.05p	407,602	3.50
Other	5,185,292	703.05p	737,542	6.32
<b>Total</b>	<b>82,014,220</b>	<b>703.05p</b>	<b>11,665,482</b>	<b>100.00</b>
Investment Channel 29 February 2008				
Court Funds Office (CFO)	105,882,953	1,051.49p	10,069,831	90.39
Official Solicitor and Public Trustee (OSPT)	2,559,655	1,051.49p	243,432	2.18
Other	8,698,832	1,051.49p	827,289	7.43
<b>Total</b>	<b>117,141,440</b>	<b>1,051.49p</b>	<b>11,140,552</b>	<b>100.00</b>

## Distribution Tables for the year ended 28 February 2009

Group 1: units purchased prior to a distribution period

Group 2: units purchased during a distribution period

Equalisation is the average amount of Revenue included in the purchase price of all Group 2 units and is refunded to the holders of these units as a return of capital. As capital it is not liable to Income tax but must be deducted from the cost of units for Capital Gains tax purposes.

### Interim dividend distribution in pence per unit

	Net Revenue	Equalisation	Period	
			Distribution 12 October 2008	Distribution 12 October 2007
			1 March 2008 – 31 August 2008	
<b>Distribution units</b>				
Group 1	14.1518	0	14.1518	13.6673
Group 2	3.4935	10.6583	14.1518	13.6673

### Final dividend distribution in pence per unit

	Net Revenue	Equalisation	Period	
			Distribution 10 April 2009	Distribution 10 April 2008
			1 September 2008 – 28 February 2009	
<b>Distribution units</b>				
Group 1	16.1559	0	16.1559	13.6791
Group 2	3.4676	12.6883	16.1559	13.6791



## Trust Facts

### Total Expense Ratio

28 February 2009      0.23%                      29 February 2008      0.23%

The Total Expense Ratio is the ratio of the Fund's operating costs (excluding overdraft interest and transaction charges) and all costs suffered through holdings in underlying Collective Investment Schemes, to the average net assets or the Fund.

### Portfolio information

	Year to 28 February 2009	Year to 29 February 2008
Total purchases for the year	£48,751,574	£39,624,167
Total sales for the year	£43,860,498	£3,352,750
Portfolio Turnover Rate	76.66%*	-0.17%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Fund's investment have changed during the year. As the Fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.

\* During the year, the Fund transferred its holdings from the Legal & General European Index Trust, Legal & General Japan Index Trust, Legal & General Pacific Index Trust and the Legal & General US Index Trust, to the newly launched Legal & General International Index Trust. This was done with minimal cost implications for the Fund.

## Performance Review

### Net asset values

Accounting date	Net asset value of fund	Net asset value per unit	Number of units in issue
28 February 2007	£87,173,960	1,104.35p	7,893,675
29 February 2008	£117,141,440	1,051.49p	11,140,552
28 February 2009	£82,014,220	703.05p	11,665,482

### Unit price range and net income

Year	Highest offer	Lowest bid	Net income
Distribution Units			
2004	850.30p	757.20p	15.2262p
2005	1,012.00p	839.30p	21.9787p
2006	1,127.00p	984.10p	24.0921p
2007	1,210.00p	1,072.00p	27.2978p
2008	1,162.00p	703.70p	27.8309p
2009 <sup>(1)</sup>	852.90p	714.60p	16.1559p

1 This table shows highest offer and lowest bid prices to 28 February 2009 and net revenue per unit to 10 April 2009.

Past performance is not a guide to future performance.

The price of units and income from them may go down as well as up.

Exchange rate changes may cause the value of any overseas investments to rise or fall.

# Administration of Justice Act 1982: Common Investment Funds

## Accounts Direction given by Treasury

### Foreword

Section 45 (1) of the Administration of Justice Act, 1982 states

“Accounts shall be prepared and shall at such times as Treasury shall direct be sent to the Comptroller and Auditor General

c in respect of transactions in a fund established by a common investment scheme, by the investment manager.”

### Treasury Direction

The Treasury, in pursuance of section 45(2) of the Act, hereby gives the following Direction

- 1 The Investment Manager of the Common Investment Funds shall prepare accounts for the Ministry of Justice Equity Index Tracker Fund in respect of the period from 1 September 2003 to 29 February 2004 and thereafter for each period of one year ending on the last day of February.
- 2 The accounts shall give a true and fair view in accordance with generally accepted accounting practice of the financial position of the Fund at the period end and of the net income and movement in the net assets of the Fund for the year.
- 3 The accounts shall be prepared in accordance with a format and content to be agreed between the Investment Manager, the Comptroller and Auditor General and the Court Funds Office, with the consent of Treasury, and shall include
  - i a Foreword;
  - ii a Statement of responsibilities;
  - iii a Statement on Internal Control;
  - iv a Statement of Total Return;
  - v a Statement of Change in Net Assets attributable to Unitholders;
  - vi a Portfolio Statement;
  - vii a Balance Sheet;
  - viii a Distribution Table; and
  - ix such notes as may be necessary to present a true and fair view
- 4 The Foreword shall include among other items
  - i a statement that the accounts have been prepared in accordance with directions given by Treasury in pursuance of Section 45(2) of the Act;
  - ii relevant information in respect of the statutory background of the Fund;
  - iii the name and period of appointment of the Investment Manager;
  - iv details of the arrangements for reporting financial performance of the Fund to unitholders;

- v a statement on the external audit arrangements for the Fund, including commentary on the roles of the Comptroller and Auditor General and the auditors.
- 5 The Notes shall include among other items
- i the accounting policies;
  - ii a statement of the regulatory basis of the accounts, with reference to best practice principles which apply to the funds in which the Ministry of Justice Equity Index Tracker Fund is invested;
  - iii disclosure of the way in which the Investment Manager applies best execution principles when making investments;
  - iv a breakdown on material items within the Accounts;
  - v the tax computation;
  - vi distribution information;
  - vii a statement of movements between net income and distributions;
  - viii any contingent liabilities and contingent assets;
  - ix any units in issue;
  - x disclosure of fees and expenses in accordance with the tariff set out in the contract;
  - xi post balance sheet events;
  - xii related party transactions, recognising that the Court Funds Office and various entities within Legal General are both related parties to the Fund, and therefore the disclosure principles laid down in FRS 8 need to be applied;
  - xiii a summary of the fund structure and the instruments invested in;
  - xiv a statement of any material errors made good by the Investment Manager and the impact of those errors on the accounts had they not been made good; and
  - xv the risk management policy.
- 6 When preparing the accounts, the Investment Manager shall comply with, and use as a best practice guideline, the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in November 2008 (the IMA SORP 2008), to the extent that such requirements are relevant to the Ministry of Justice Equity Index Tracker Fund.
- 7 The Investment Manager will support the Accounts with a General Representation Letter, containing material matters that need to be confirmed to the Comptroller and Auditor General and the Court Funds Office.
- 8 The Investment Manager will also submit the annual taxation computation to the Inland Revenue within the timescales defined by the Inland Revenue.
- 9 The Investment Manager will employ best endeavours to complete the Accounts and enable the Comptroller and Auditor General to lay the Accounts before Parliament within 9 months of the year end in respect of the accounts for the year ended on 28 February 2004 and thereafter within 3 months of the year-end.
- 10 This Direction shall be reproduced as an annex to the accounts.
- 11 This Direction replaces the Direction dated 26 May 2004.

David A Cruden FCA  
Head of the Central Accountancy Team  
Her Majesty's Treasury

14 July 2009

## General information

### Accounting distribution dates

The accounting and distribution dates for the Ministry of Justice Equity Index Tracker Fund 2009 are

Accounting dates	Distribution dates
28 February	10 April
31 August	12 October

### Buying and selling units

#### Unit prices

Unit prices may be found in the Financial Times under the MoJ Common Investment Funds heading, or are available from the MoJ.

The Fund is valued daily and the prices for buying and selling units rise and falls depending on the market value of the Fund's investments at that time. If the prices are published as 'ex-dividend' a purchaser will not be entitled to the next income payment.

#### Management fee

There is no initial fee on the issue of units and no redemption charge is applied. The annual management fee is based on fund size as follows

0.17% for the first £50m

0.14% between £50m and £100m

0.13% between £100m and £150m

0.12% between £150m and £200m

0.11% thereafter

The management charge is paid in arrears out of the total assets of the Fund at the end of each month.

Individual accounts are unaffected by the management charge deduction.

#### Buying and selling securities

The Investment Manager buys and sells units in the underlying unit trusts on behalf of the Equity Index Tracker Fund using forward prices at the date of investment. The prices of the underlying trusts are published on the internet at [www.legalandgeneral.com/investments/daily-prices.html](http://www.legalandgeneral.com/investments/daily-prices.html) immediately after they become available.

The Manager of the underlying trusts effects transactions based on Best Execution at all times and may, subject to Investment Restrictions, deal on any such markets or exchanges and with or through such brokers or counterparties as it thinks fit. The Manager will act with good faith and due diligence in its choice and use of brokers and counterparties.

#### Asset allocation

On 31 March 2008, Legal & General International Index Trust was launched. From this date the Fund's FTSE World (ex-UK) Index exposure has been provided by this Trust. Previously this exposure was provided by

Legal & General European Index Trust;

Legal & General US Index Trust;

Legal & General Pacific Index Trust; and

Legal & General Japan Index Trust.

Details on each of these Funds can be obtained by contacting Legal & General on 070 050 0955.

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**Manager**

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Telephone: 0370 050 3350  
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**Directors of the Manager**

CRR Avery (resigned 28 January 2009)  
MB Boardman (appointed 10 February 2009)  
MJ Gregory (appointed 10 February 2009)  
SR Pistell  
CM Radford (resigned 1 March 2009)  
S Thomas

**Secretary**

A Fairhurst

**Overall governance**

Ministry of Justice

**Auditor**

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Victoria  
London SW1W 9SS

**Fund Investors**

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**Prepared and issued by**

Legal & General (Unit Trust Managers) Limited  
One Coleman Street  
London EC2R 5AA  
Authorised and regulated by the Financial Services Authority

## **Strategic Investment Board**

The members of the Strategic Investment Board up to 30 June 2008 and prior to its disbandment were:

### **Chairman**

Mr Alan Clifton

### **Appointed members**

Dr Ros Altmann

Mr Alan Clifton

Mr Andrew Hutton

Mr Lawrence O'Mara

### **Ex Officio Members**

Mr Nick Crew

Master Denzil Lush

Mr Alistair Piblado

Mr Kevin Sadler

### **Secretary**

Mr Alan Palmer

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